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Elgin Groseclose

Time to Abolish the FED?

TO PROPOSE that the time has come for abolition of the Federal Reserve System will appear novel, if not heretical, considering how most conservative inflation fighters regard it as the lever by which the careening wagon of inflation will be braked to a halt without jarring its occupants. Note, for instance, the reverence toward it in the Republican Party platform (that tactfully omits mention of the Reserve's responsibility for the bloated currency circulation). Note that the President vows to "respect the independence" of the System. Note finally the enormous new powers conferred upon the Reserve by a compliant Congress in the Depositary Institutions Deregulation and Monetary Control Act of 1980.

Yet it is this very legislation that will demonstrate the incapacity of the System to meet the continually widening responsibilities laid upon it and force re-examination of its *raison d'etre*. For in a supposedly free market and private enterprise society it has become an economic Politbureau with authoritarian power for state planning and control of the economy approaching that of totalitarian governments. As with a Politbureau, its power has been concentrated in a Presidium (the Open Market Committee) of twelve persons (11 men, 1 woman) with terms of 14 years that isolate them from reality and make them independent of any influence from the elected government.

Copyright 1981 by Elgin Groseclose. Dr. Groseclose, a financial analyst, is author of *America's Money Machine* and *Money and Man*. He serves as Executive Director of the Institute for Monetary Research, Inc., Washington, D. C.

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Baffling Rise in Interest Rates

If evidence were needed of the inability of this select company to make the profound decisions and judgments required to manage an economy so vast and complex as the U.S., one need only note the consternation in the market at the current surge in interest rates, "money supply" and unabated price rises, all contrary to the design of the policy makers. To many FED watchers, the actions of the Presidium are like those of an amateur hi-jacker of a 747—pulling this lever and pushing that, now playing with federal funds rates, now with reserve ratios, now with meaningless concepts like M, M_1, M_2 ad infinitum, meantime leaving the market lost in the wild blue, not knowing whether the economy is headed for a crash, or aboard a Voyager soaring toward an outer nebula.

Good men (and woman) though they may be, skilled no doubt in the intricacies of banking, it is doubtful if they are acquainted with the elementary composition of money which they are supposed to govern. (We will mention this later.) For that matter, the Federal Reserve System was never designed to deal with money but only with debt—bankers' debt. When the National Monetary Commission was set up in 1910 to devise a means of preventing credit crunches—"panics" such as that which struck Wall Street in 1907 and frightened the country, it produced some 24 volumes of reports on banking practices around the world and one thin volume on money itself that is less than a primer on the subject.

A Pawnshop for Indigent Banks

Actually what emerged in the Federal Reserve Act of 1913, and what has remained ever since, under a catalog of euphemisms trotted out every time a crisis arises, is a glorified pawnshop for indigent banks. That is, under the guise of a "flexible currency" for seasonal or sporadic needs, it allowed member banks to sell to the FED qualifying debt instruments in exchange for cash.

There were certain safeguards, however, in the System as originally enacted. Thus, accommodation to banks was limited to advances collateralized by short-term commercial paper of not more than three months' maturity (six months for certain agricultural paper). Reserve banks could also buy short-term government bonds in the market. Cash meant gold coin, or depositary receipts therefor, but Federal Reserve notes, redeemable in gold, were unfortunately authorized as legal tender up to 2½ times the amount of gold held in reserve for their redemption.

These narrow limits were soon broken. To finance World War I, the

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powers of the Reserve were expanded to acquire vast quantities of government debt, issuing its circulating notes therefor. In 1922 the Presidium began—tentatively at first—to use its powers in the direction of state planning of the economy, first to influence the price level, later the amount of debt the country could stand (the volume of bank loans) and eventually the level of employment.

The Federal Reserve Act was heralded as an instrument that would end panics; despite the fact that within 20 years of its establishment the country was plunged into the worst financial debacle in its history, Congress and the public have continued to confide to the System more and more authority, climaxed with the Monetary Control Act of 1980.

New Inflationary Powers to FED

This Act, in essence, brings every check-paying institution in the country under the authority of the Reserve, and requires them to maintain in Reserve banks such reserves as the Reserve authorities determine. Heralded as a measure to control inflation, its effects are the opposite. By concentrating reserves in Reserve banks, the System was furnished with enormous new lending powers. Yet it is all like playing with mirrors, for the Reserve, freed from any necessity to maintain gold in its vaults can increase bank reserves at will simply by buying government bonds in the market and paying for them by deposit credit or notes. Moreover, in exchange for greater supervision, the Act gave the check-paying institutions certain goodies in exchange. They can now hold their cups—or buckets—at the gushing fountain of Reserve credit. That is, under almost any conditions that the Reserve authorities determine under Regulation A banks can exchange their secured or unsecured debt obligations for the Reserve's legal tender currency. (Of course, since the Reserve notes are irredeemable, this is only an exchange of one frozen asset for another.)

Not only can banks obtain cash in this manner but the Act permits the Reserve to bail out corporations in trouble, even individuals in financial straits.

The capstone of the Act is the provision that allows the Reserve to bail out Banks' holdings of frozen foreign securities—such as those of Poland and Turkey—so long as they are "guaranteed" by the government of the borrower.

Out-Doing John Law

Thus, the Reserve enjoys a power greater than that of John Law, the 18th century financial wizard who captivated France by his undertaking to "coin the soil of France." The

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Reserve may now liquify the wealth—pardon, the debts—of the entire world.

Here, then, is the flood that no fiscal restraint can dam, no balanced budget prevent. While the Reserve authorities no doubt will hope to use these enormous powers sparingly, that is an idle hope. If the Reserve attempts to tighten its purse strings a howl from the market will rise so overpoweringly as not to be resisted. No power sitting in Washington with such a wand to convert debt into cash at the stroke of a pen will be able to resist a demand that it be used. If examples are needed, we need only look at New York City, the Franklin National Bank, the Chrysler Corporation. Others will follow.

If then the Federal Reserve were abolished, and its pawnshop functions transferred to, say, the Federal Deposit Insurance Corporation, what system of money regulation should follow? An answer to this question is that referred to earlier—an understanding of the essence of money. Contrary to fractional reserve and monetarist theory, that regards money as purchasing power from created debt, rather than a store of value, money consists of a substance and a principle: the substance may be anything from the great stones of Yap to such fragile items as tobacco, used in Colonial Virginia—but historically, gold or silver. The principle is that of integrity. This may be illustrated in the first commercial transaction of which we have account—the purchase of a field for a burial ground by the Patriarch Abraham from the Hittite Ephron for 400 shekels of silver, recorded in Genesis, which states that Abraham *weighed* the silver unto Ephron. (The shekel was a weight, never a coin.) The account does not explain who certified the accuracy of the scales or the fineness of the silver—it was unnecessary. Abraham was a man of integrity.

True Nature of Money

Later in history precious metal was struck in pieces of uniform size and fineness known as coins. This permitted trade to proceed by tale rather than weight. As certification of the weight and purity of the coinage the first mints were established in the temple and under the aegis of the presiding deity and the coins bore the image or symbol of the deity. This was true in Athens, where drachma bore the image of the sacred owl. In Rome, where the mint was that of Juno Moneta (the Warner), the coinage was known as moneta.

When coinage passed from the temple to ruler, after Alexander the Great began to put his effigy on the coins, integrity gradually seeped away and coinage began to suffer debasement by clipping and alloy—

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so that coinage eventually lost its prestige as money. Nevertheless, throughout history to the present time money has always meant coinage, and is so meant in the U.S. Constitution.

Stable money will not return to the economy until money again means coinage and not spurious Federal Reserve notes.

The Loss of Integrity, Gold Contracts Repudiated

The second ingredient of money, that of integrity or public credibility, was lost in 1934 when the paper circulation was made irredeemable, when the government repudiated its gold contracts, when it violated the Constitutional prohibition against impairment of contract by annulling all private contracts for payment in coin, and finally when, again contrary to Constitutional provision, all privately held gold was sequestered without due process of law.

Restoration of public confidence requires first the restoration of free coinage, which means that anyone can bring metal to the mint and have it coined.

Free coinage is an English innovation in 1666 during the reign of Charles II. By opening the mints to the public, the government's monopoly of money that had been the historic practice since Roman times, was surrendered to the free market. So successful were the results in providing an abundance of circulating media that England in the succeeding centuries became the premier commercial power of Europe, and when the U.S. was founded, free coinage became the rule here until 1934.

Here is the great regulator of the "money supply"—the market. Worries about an adequate supply of money under such conditions are groundless, as experience with petroleum supplies has demonstrated once governmental controls are removed.

A second measure necessary to restore public confidence in the monetary system is a Constitutional amendment securing the electorate in their private possession of monetary metal, by excluding such metal from seizure under government power of eminent domain. This would remove the fear of a second seizure as occurred in 1934.

A final necessity for restoration of confidence in the money is that of making explicit what is explicit in regard to the states but only by inference in regard to the federal government—namely a Constitutional amendment declaring that the federal government may declare as legal tender only gold and silver coin.

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Ridgway K. Foley, Jr.

Why Right Does Not Triumph

PONDER a question which perplexes most of those persons professing allegiance to the political, economic, social and moral principles characterizing the right side of the political spectrum: Why does the position fail to gain adherents and reach ascendancy? Why do the pillars of propriety and good sense appear to crumble round about us?

Initially, allow me to sound a caveat: labeling persons or philosophies involves inherent risks. Indeed, an analysis of the political spectrum, with its terminology of "old right," "new right," "old left," "new left," and "center," deserves a separate discourse.

For the purposes of this essay, I interchangeably utilize the terms "right," "conservative," "voluntarist," or "libertarian" to indicate persons possessing varying degrees of commitment to the concepts of limited government, personal liberty and a willing exchange economy, recognizing the intrinsic hazards in throwing together a mass of discrete individuals and applying an all-encompassing mark or brand to them. Such conduct tends to obliterate the essential differences in outlook and philosophy which attach to the individual within the group. Use of the label merely facilitates analysis of the political system in broad-brush terms sufficient for our purpose herein.

By like fiat, I have applied the labels "statist," "left," or "liberal" to those citizens generally placed upon the opposite end of the political spectrum; the "left" normally refers to persons viewing man as subject to

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social engineering and favoring government intervention and control of at least some aspects of human life.

The issue posed appears particularly vexing in light of the certainty that the postulates of limited government, individual freedom, personal responsibility, private property, and free market exchange merit universal acceptance. These conditions, existing as both ends and means, demonstrably reflect human nature and better man's lot on earth. The free society ought to prevail because it is just and because it harmonizes with the essential truth of the universe. Why, then does the free society falter and fail to even gain a foothold in our culture? At least seven causes coalesce to produce this state of affairs.

1. Cohesion and Dispersion

First, the individualist rails against programs, organizations, and suffocating details which seem so necessary to shape and mold a doctrine into publicly acceptable form. The herd instinct preponderates in those enthused by the liberal or statist approach; the identical characteristic evaporates when one observes a libertarian. The liberal seems quite able to chant, shout, or cry in unison with other milling beings, unlike the individualist who follows his own inner directions. In simple prose, the statist by his nature, can mass-produce and orchestrate the endeavors of myriad like-minded beings, bringing power and numbers to bear upon the specific problem confronting him at the moment. Such computerized directives abrade the voluntarist who exhibits the traditional traits of self-reliance, self-sufficiency, and internal motivation.

The end result of this human tendency produces a fragmented right and a cohesive-appearing left in western political tradition. The conservative wing (and the majority of intelligent persons interrogated in recent opinion polls tend to categorize themselves as "conservative") splits into dozens of different branches, often soliciting support from the identical played-out sources, often waging internecine warfare among themselves. In part, this trend reflects the diverse interests of the participants, each lending his efforts to the matters considered most pressing; yet unquestioning acceptance of this view masks the underlying reality.

To be certain, members of the right diversify, some concerned with national security, some with the threat of international communism, some with monetary matters and a return to the gold standard, some with outrages against decency, some with political contests, some with free market philosophy, to identify but a few endeavors. Yet the left, both old and new, focuses upon at least as

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many if not more real or imagined needs: national health insurance, energy, ecology, senior citizens, housing, welfare rights—the list goes on and on.

Perhaps one major difference between statist and libertarian lies in how each views his allies. By and large, the liberal maintains a working truce if not genuine harmony with his fellow zealots; while A may expend the bulk of his energy campaigning for cleaner water or better apple pie, he is not above running over to assist B in the latest drive for more mothballs for the senior citizens' home. The conservative, to the contrary, tends to cast watchful, wary, and downright covetous and envious eyes upon the ranks of those ideologically related to him. He often begrudges their money and manpower and devotes at least a part of each day cutting away at the support achieved by those who should serve as his adjuncts. Divide and conquer—we save the liberal the trouble for we do it to ourselves!

2. Pragmatism Versus Messianic Zeal

Second, and related to the first reason, one discerns in the libertarian a messianic rigidity absent in the liberal, an inflexibility which tends to be counterproductive to the ends sought. In a word, the liberal practices pragmatism while the conservative retains an uncompromising idealism. This trait explains, to some degree, the earlier tendency considered, the lack of allegiance between groups and individuals expressing common bonds.

While the left does not lack for uncompromising metaphysicians, the right seems destined to carry this aggressive crusader characteristic to an extreme. All too often, prophets and practitioners of libertarianism act as though they had a lock on Eternal Truth, and would allow their fellowmen but a glimpse through the keyhole in their own good time and upon their restrictive conditions. Inability to tolerate the slightest deviation from the party line marks this type of individual and inevitably leads to verbal brawling. In addition, the religious fervor and doctrinaire approach tend to quell any interest abiding in the casual onlooker, the person who might conceivably join the cause if only he were not put off by all the shouting. Thus, this self-defeating trait loses both new members and old friends already active in the movement.

The liberal appears more ready to live and let live, to work in concord with those in fundamental agreement on one or more principles. The doctrinaire tendency has gained some ascendancy in the old left, but fundamentally the statist agrees that government possesses the answer to solve all ills, and agrees to disagree

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on implementation of the program.

This is not to say, however, that principle does not deserve an honored place in our lives. An ethical man cannot morally compromise his fundamental principles. Yet there exists a wide gulf between compromising one's principles and eating with publicans and sinners. I may believe social security to constitute the greatest hoax, pox, and fraud ever perpetrated upon the American public. I adhere to my principles by refusing to accept social security payments and by writing and lecturing upon the evils of the plan; I do not compromise these revered tenets by working with those who disagree with me on social security if we encounter a common disinclination for the Federal Reserve System and decide to present a united front in favor of private, disciplined banking.

3. Creators and Takers

Third, the value structures between right and left differ significantly. This essential truth appears to most observers, but the ramifications of the proposition may remain disguised. The left values power and manipulation, for all its prattle about personal needs; the worth of the individual forms the epicenter of the right. View and value of man *qua* man colors the entire mode of thinking of each point of view. If man is a mere plaything of the social architect, to be molded and folded like ever so many computer cards, it becomes exceedingly simple to denigrate the worth of the individual and to submerge him for the good of the social whole.

On the other hand, if man can be defined as a fallible yet improving being possessing intrinsic worth because he is a man, deserving of freedom and differentiated from the rest of the worldly beasts and birds by his power of choice, quite a different set of values follow. Man becomes a creative, productive, worthwhile creature, capable of conceiving, designing and achieving his own destiny, not mere clay to be kneaded and cast by unworthy hands.

One salient concomitant to these distinct views of human worth characterizes the competing philosophies and partially explains the seeming failure of the right to prevail. The conservative tends to be more engaged in creative and productive efforts and unable or unwilling to devote substantial time and energy to the business of expounding a philosophy. The liberal often seems quite willing to expend considerable time and energy in destructive pursuits, forging alliances and importuning those clothed with political power to transfer some tax-funded largess or coercive power to a person or cause or group deemed just. The conservative is too busy producing the bounty which the lib-

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eral uses to mulct and enslave the creator. The right produces; the left takes. And the right often fails to understand what to do to protect the value created.

4. Understanding and Explaining Liberty.

Fourth, the conservative exhibits an almost total inability to grasp, comprehend and propound the system of freedom, while the liberal mouths half-truths and invalidities repeatedly until they become readily accepted. The right manifests a curious, almost mystic, faith in freedom, yet ever so many of the practitioners fail to understand the system and the philosophy which feeds their success and sustains their being. Indeed, little systematic research and defense of individualism appeared for many decades; common acceptance of the doctrines and lack of organized antagonists rendered it apparently unnecessary for men to school themselves in ancient truths. Yet during this very time of almost universal lip service to a seemingly healthy doctrine, the opposition had organized and inoculated the body politic with a deadly strain of virus: the cancer of socialism.

Ever so patiently through the dying days of the nineteenth century and into the new era of prosperity, the left honed their ideas and inculcated their radical and alien nostrums into our culture: The Interstate Commerce Commission, Granger Laws, Conscription, the Federal Reserve System, the progressive income tax, to name but a few. Appearance and reality: to all appearances, these little deviations from the norm of liberty seemed harmless enough, and after all, they were "necessary for the betterment of mankind." The right had so relaxed its vigilance that it lost the war unaware that the gauntlet had been flung.

Even during the populism of the New Deal and the Fair Deal, few voices cried aloud for a return to a fiscal and moral sanity. The conservatives appeared stunned and unable to defend themselves or their values. Like those early people of Israel, the right dispersed and splintered into many tribes.

While the miasma continues, the perceptive observer over the past quarter century has witnessed and come to recognize an awakening, a gradual alteration in attitude. Conservatives have resurrected the thoughts of earlier thinkers, long dead and almost forgotten. New and exciting defenses of freedom and the market score the current scene. Yet the bulk of proponents of the right remain untaught in their own doctrine, unable to defend the system against the onslaughts of the left which, after all, own a splendid head start.

Related to this subject looms one

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eternal verity: truth does not teach itself. Too long the conservative has naively assumed that he knew the truth and because truth was valid it would prevail. Truth would triumph in a perfect world, but we do not inhabit such a place. Instead we are fallible human beings sojourning on a bit of rock in a vast universe governed by natural laws, norms which permeate the social as well as the physical realm. Just because a government undisciplined by a gold standard is foredoomed to economic tragedy does not mean that all men (or even a majority of them) will see, or accept, this truth and take action to avoid disaster. Man is not perfectly rational. He does not know all of the laws governing his existence. And when he glimpses truth, no matter how darkly, he must repeat it over and over again else the next generation will not hear and heed it.

Let there be no misunderstanding. Just because we do not perceive reality does not destroy its essence. Natural rules of order exist and control this flotsam on the sea of the universe whether we like it or not, whether we know it or not, and whether we care or not. One fundamental rule exceeds most others: the law of cause and effect. If we do not heed this command it will work vengeance upon us. Enslaved people produce less material goods than free men; therefore, if one ignores the law of cause-and-effect, and enslaves a person or a nation, the material wealth of that community will decrease.

Flight from Reality

The statist, unlike the right, fails to comprehend most of the laws governing the universe or, if he does grasp their working, thinks that he can alter, delay, or thwart the ordained reactions. Oh, to be sure, even the liberal recognizes some natural rules, but fairly analyzed, his world does not comport with reality and his philosophy bares a mass of inconsistencies and contradictions.

For example, the current gospel of the left prates about national health insurance "so that all people will be afforded decent medical care," yet natural laws dictate that a market economy in medicine will produce better health care at a lower cost than a coercive system. The end result of national health insurance: good physicians will evacuate the field (since they cannot receive a fair return for their created value) to the less talented and devoted; perhaps some persons who would not have received medical assistance under a market system (because it did not coincide with their values) will obtain substandard (by the market system) health care coercively subsidized by others, but many individuals will acquire lessened quality and quantity of service at a high cost including subsidies for the tak-

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ers and salaries for the administrators.

Despite his inability to perceive and understand actuality, the liberal persists in braying his particular brand of "truth" (usually half truth or falsehood) to the public at large. The left knows what the right does not: if you want to get your point across, repeat it on every available occasion. The left may lack insight; it does not lack exposure. The liberal at least comprehends his system and can articulate it.

5. Human Heartstrings and Basic Insecurity

Fifth, the nature of the messages carried to the mass of people by left and right vary in impact.

Remember the fact that a relatively few individuals display commitment to the theories of left or right: most remain in an uncommitted center. Those in the center not only represent the bulk of the population but also the epitome of power, for they carry the social vote in political elections and the dollar vote in the marketplace. The left succeeds and the right fails because the former overwhelms the latter in the political arena. While verbiage veils the reasons for this continual victory, one matter remains certain: the center finds the message transmitted by the left more palatable than that emanating from the right. The right ofttimes disdains political solutions to market problems; it must, nevertheless, learn to cope with the political world, if only by effective expression of opinion.

The liberal entreaty tugs at the human heartstrings and appeals to man's fundamental fears and insecurities; in essence, the left tells the center what it wants to hear. Both left and right manifest that real human concern which attends all persons: A desire that no one be ill clothed, ill housed, or ill fed, that misery and fear be avoided. The left, however, poses as the champion of the downtrodden and defenseless and offers to "do something" for the needy or to "solve" their problem—always accompanied by massive doses of government funds and the coercion of eternal bureaucracy. The right, by contrast, appears heartless because it insists that each should follow his own path to his own star. The liberal offers a patent solution, the right an open-textured one. The left says the state should alleviate suffering, the right evinces belief that free men acting freely can solve more problems more quickly.

Moreover, the liberal suggests attainment of a perfect world while the conservative knows that imperfect man can never create perfection. Thus, the statist addresses a base need, the drive of man for security, while the individualist puts man on his own, to sink or swim. Freedom offers neither easy an-

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swers nor a guaranty of success. Many enterprises falter and wither in the free market. Man expresses an essential need to believe in something permanent and eternal, and the liberal fulfills that need in this world by providing cradle-to-the-grave care by the state. People want to accept and believe their leaders, to know that someone is looking out for their best interests; the liberal nourishes this wish with an abundant bureaucracy supposedly coddling the citizen, assuaging his ego, caring for his needs (with his money) and making him feel safe and important.

Reality teaches us that the panaceas of the left do not really cure any ill, although they may beget a desired narcotic effect upon the aggregate of the population. Indeed, application of state coercion not only creates more problems than it solves but also stifles individual initiative and creativity. Who will work and produce to care for himself and those he loves if someone else promises to do it for him? But the barrenness of the statist opiates does not dispel their effectiveness in swaying the center. As Marshall McLuhan has taught us, it is not what you say that is important, it is what people *think* that you say. And, one might add, it is not whether what you prescribe works or not that is important, but whether the recipient *believes* that it works. Statism doesn't work, but the left has convinced the center that it does and the right has not counteracted that message.

6. Internal Inconsistency

Internal inconsistency of the conservative represents one salient reason for the failure of the right to convince the citizenry of the propriety of freedom.

Review the myriad factions of the libertarian philosophy, each steeped in its own particular brand of ideology and search for harmony with everlasting truth. All too often, the adherents of one branch or point of view reveal logical and moral ambivalence when discussing or acting upon a distinct problem. Thus, the businessman who parrots the lingo of free enterprise while accepting government subsidies or government regulations as a precondition for government contracts, and who argues for monopolies sanctioned by the state in areas "affected by the public interest," or in the "national security" interest, does little to advance his individualistic cause. By the same token, the farmer who decries government interference in pricing but accepts quotas and soil bank payments exhibits grave inconsistency.

An endless list meets the observing eye, for most freedom lovers seem all too willing to make an exception to the rule of freedom when it affects their interests or their particular

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passion. Free me, but regulate others! Exposure of this hypocrisy to the uncommitted surely does not encourage devotion to the cause.

This inherent paradox partakes of the fifth reason, the drive for security. Man, driven by his nature, does seek certainty in an uncertain world. Freedom entails risk, for liberty means that not every man can achieve his chosen goals when competing with every other man in a finite world peopled with fallible beings and supplied with scarce goods. Freedom does include freedom to fail.

The Urge for Security

The impulse for security sometimes overcomes the longing for liberty; the actor may want the state to assure his success in a particular endeavor by compelling other beings to approve his goals and bear his risks. Thus, the entrepreneur engaged in the enterprise of selling widgets refuses to trust the market mechanism of free men acting freely, for in such a milieu, widgets may not accord with the values of other men and they might not trade with the maker so as to guarantee his continuance in business. Therefore, the producer induces the state to compel consumption of widgets, or to exclude other manufacturers, so as to protect the producer and enhance his position.

Again, let there be no misunderstanding: the left flaunts substantial discrepancies and deviations from reason in its philosophy. Indeed, as viewed from this vantage point, statism doesn't work and can't succeed because it commences with a faulty conception of man and proceeds upon a disharmony with reality. Thus, the professor who chatters about academic freedom while enjoying tenure and teaching socialism displays as much ambivalence as the newspaper publisher indulging in all manner of socialist editorials while asking the public to buy his product produced by nonunion labor during a union strike. But, by and large, the left wins debaters' points and converts from the center precisely because it has molded a cohesive and consistent, if incorrect, philosophy: the belief that all real or imagined ills or problems stemming from man-to-man encounters in society can only be solved by the organized force of the state.

7. Play It by the Rules—and Lose

Methodology and ethics coalesce to determine the victor in the right-left conflict. The left plays by no rules, because its very ideology considers that the end justifies the means and man represents a mere pawn to be molded and manipulated for the good of the community. On the other hand, the right adheres to traditional values of propriety and fair play, consistent with its view

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that the end pre-exists in the means and the concept of man as possessing value and intrinsic worth.

A harsh indictment? To be sure, but one supported by both rational and empirical evidence. Review of newspapers, magazines, and other accounts of the passing scene presents a plethora of data reinforcing this conclusion. Look around you. Local school districts often require voter approval for budgetary matters. Control of the election equipment resides in those favoring state intervention in education, i.e., passage of the budget. Somehow, election notices prominently reach those anticipated to support the budget (e.g., parents of school-age children), while those disinclined to cast a ballot for state interference often have difficulty discovering the location of the polling place. State law normally prohibits pressure on public employees to support measures submitted to the people, yet the left finds varied and subtle (and sometimes not so subtle) ways to coerce teachers to vote for the budget and to prostitute their principles to convince others to do likewise.

Do you require more evidence? Then consider the biased reporting of media in the United States. Documented elsewhere beyond cavil, the media picks and chooses that which will be emphasized and that which will be ignored. All too often, the right is ignored and, if "balance" is sought in programing, the representative of the libertarian point of view selected by the statists hardly depicts the true position, or is given inadequate exposure.

Can you stand another example? Many states offer voters' pamphlets in which candidates and organizations can explain their positions and offer their wares to the citizenry. Yet the left so fears the truth that in some states those voicing different values are locked out of the voters' pamphlet by restrictive legislation; only that material which meets the criteria of the liberal establishment can be distributed to the voters, even if the partisans offer to pay their own way!

The issue contains moral overtones. To the conservative, free men should not be defrauded or coerced. He retains the conviction that truth will out, that right will triumph, if all positions gain equal airing. He believes in the free marketplace of ideas, as much as in the free market for material goods, and force does not belong in a market because initiation of force is immoral. To the contrary, however, the liberal, no matter how much he proclaims an interest in the individual, lacks the moral restraint exercised by an overwhelming belief in the worth of the individual. One who views a person as so much clay to be modeled and fit into a master plan cannot vaunt a convincing concern for

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the means of discerning truth. He thinks that he knows, better than anyone else, what is good for mankind and, vested with this arrogant attitude, he proceeds to impose his will upon others by any means available.

Conclusion: Steps to the Preservation of Freedom

This essay addresses the question, why right does not triumph. It does not offer answers, in the form of a master plan. That task belongs to each of us as we evaluate our talents, our desires, and our commitment to the cause of freedom.

Nonetheless, to avoid the charge of being remiss in my obligation, allow me to offer some conclusory comments in the full knowledge that mere conclusions *sans* rationale may tempt the challenge of the dissenter who cannot agree unless the underlying logic of the position appears point by tedious point.

Initially, not all of the seven reasons offered were intended as criticism of the right. Certainly one cannot decry the attendance upon a moral position as wrong. Rather, the analysis sought to isolate some pertinent reasons in the hope that each devotee to the freedom philosophy could bear them in mind and seek to counteract their effect.

In end result, some constructive suggestions appear. Conservatives should coordinate their efforts with one another and work more closely with their natural allies in the pursuit of common goals. They should seek to identify, inform and incorporate like-minded persons into the mainstream of libertarian thinking in the hope that it will become a welling tide. They should avoid inconsistency and fervent zeal which detract from their position. They should learn their philosophy, expand upon it, and live it: a never-ending labor. They should devote time normally accorded to the production of goods and services to the nurture of freedom. Finally, they should remain alert to the positions of the left and the methods it employs, never failing to articulate and publicize liberalism and its failings. If we all do this, right shall triump.

John Jewkes

IDEAS ON LIBERTY

AS CONTRASTED with the ideal ways of organizing effort in other fields, what is needed for maximizing the flow of ideas is plenty of overlapping, healthy duplication of efforts, lots of the so-called wastes of competition, and all the vigorous untidiness so foreign to the planners who like to be sure of the future.

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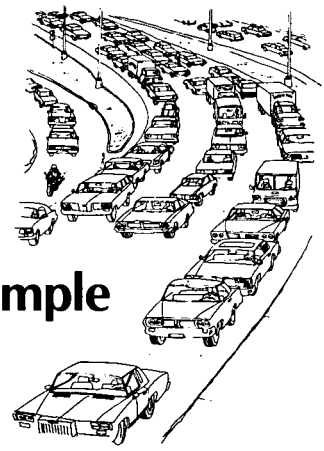
John Semmens

THE SEEN VS. THE UNSEEN: A Modern Example



ACROSS the country, state after state is chafing under the imposition of the 55-mile-per-hour speed limit. Self-appointed critics of the wisdom of the American public shake their heads knowingly, remonstrating against this "typically shortsighted return to pre-crisis energy profligacy." The Federal Highway Administration weighs in with its own threat to withhold Federal aid to those states not abiding by the 55-mph edict.

The intent, of course, is to force us to conserve precious resources. What isn't realized is that the 55-mph speed limit does not conserve resources. A strictly enforced 55-mph speed limit would result in a substantial increase in the resources consumed in order to produce the same output of goods and services. Even more ironic, though, is that the original enactment of the reduced speed limit set in motion a chain of events which has led directly to the accelerated deterioration of the highway system.

It is a classic case of the seen vs. the unseen that was first portrayed by Frederic Bastiat in the early 19th century. On the surface, it is plain to see that vehicles driven at 55 mph will generally consume less fuel than vehicles driven at faster speeds. Less obvious is the fact that reducing the speed limit from 70 mph to 55 mph decreases efficiency through increased travel times of up to 25 per cent.

In the bosom of the bureaucracy, time may have little or no value.

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However, in the real world "time is money." People ordinarily must be offered an inducement to get them to spend their time. If we are to make a valid analysis of the advantages and disadvantages of lower speed limits, we need to consider the element of time consumed or saved, as well as the amount of fuel used.

If the 55-mph speed limit were enforced to achieve 100 per cent compliance, the maximum fuel saving would amount to only 18 per cent. Matched against the time loss of 25 per cent, this does not seem a very good trade-off. When we pursue the analysis further to take into account the relative prices of fuel vs. time, the consequences of this public policy appear even worse. In terms of the value of human time consumed in the trip alone, for every $1.00 of fuel saved $1.50 in time is lost.

The above analysis does not even begin to go into the question of the consequences of reduced transportation capacity. On the one hand, the reduced transportation efficiency will raise the cost of transporting goods more than would have occurred if greater speeds were allowed and more fuel burned. In addition, less efficient transportation would increase the incidence of business inventory "stockouts," unless inventories are enlarged to compensate for increased transportation delay. Financing enlarged inventories in today's expensive credit markets puts even more upward pressure on interest rates.

Another answer to the problem of reduced transportation capacity under the 55-mph speed limit is to increase the size or number of long haul trucks. Increasing the number of trucks requires major capital investment to produce power units and trailers. Even so, the manufacture of more trucks does little, if anything, to lower the per trip operating costs. Therefore, it should not be surprising to discover that the option most attractive to the long haul trucking industry was to increase the size of the vehicles.

Fueling their case with fumes of the energy crisis, the trucking industry persuaded Congress to increase the allowable limits on vehicle size and weight. In January of 1975 Congress raised the weight limit to 80,000 pounds. This enabled the heaviest long haul trucks to increase their operating efficiency potential by nearly 10 per cent. Everybody went home happy.

Little noticed in this valiant effort to reduce energy consumption and improve motor carrier operating efficiency was the potential impact on the highway system. At the same time that the increased vehicle size was producing a 10 per cent efficiency gain for truck operators, it was also producing a 40 per cent increase in pavement wear and tear caused by heavy vehicles.

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Now, eight years after the decrease in highway speed limits and six years after the increase in allowable yehicle weights, we discover that the roadways are deteriorating at a faster pace than was anticipated when they were designed. The consequence is that these roadways will require heavier maintenance outlays and many will have to be rebuilt at a cost of multiple millions of dollars per mile.

The whole episode is a classic demonstration of what can go wrong when government seeks to resolve "crises" by overruling market-based decisions. The time honored market solution to shortages is a rising price. The rising price serves the twofold purpose of dampening demand while stimulating supply. Yet, this most efficient equilibrating mechanism was rejected and upset by the government's determination to find a "better" solution, one that would be less costly to the society than letting fuel prices rise.

Of course, there is no "less costly" solution than a free market for meeting the material needs of a society. This fact has become painfully apparent over the last eight years. Fortunately, many of the emergency energy rules have been dismantled or abandoned. Unfortunately, some of them, including the 55-mph speed limit, are stubbornly still in place.

Perhaps, though, there is a silver lining in the whole sorry episode. The legacy of prematurely deteriorated highways can serve as a poignant reminder of the folly of tampering with the allocation functions of the market. Making use of this lesson will not be easy. Current discussion of the accelerated roadway deterioration problem conveys the impression that it is something that "just happened," or worse, that it is merely a result of inadequate taxing and spending.

But, the causal chain, lengthy and complex though it may be, is there. It can be traced and documented. The accelerated wear and tear on the nation's highways is an end-product of a chain reaction set into motion by the government's attempt to suppress the energy resource allocation mechanisms of the market. It is a high price to pay, but it won't be a total loss if the experience serves to keep us from making the same mistakes in the future.

IDEAS ON LIBERTY

Self-Reliance

If it were ever true that we grow strong by bearing burdens, it's true today. It follows, and is equally true, that we grow weak and flaccid when our burdens are taken away.

VOLLIE TRIPP

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ZONING: A Tragic Public Policy

IN THE VIEW of most concerned professionals, zoning legislation is a necessary bulwark against chaos in urban land use. Without zoning, it is contended, external diseconomies will abound: pickle works will come to rest next to single family homes, glue factories beside country clubs, and oil refineries in proximity to restaurants. Moreover, it is feared that rapacious land developers will erect, profit from, and then abandon buildings, placing undue strain on the capacities of municipal services. Further, the unzoned city will be one of haphazard construction, falling property values, instability, disregard for neighborhood "character," irrational allocation of property—and a haven for unscrupulous speculators.

Zoning is the attempt to suppress these supposed market defects by legislatively prohibiting incompatible uses of land. Under this ordinance, the pickle factory would be prohibited from residential neighborhoods and required to locate itself in a special industrial area, reserved for that kind of operation. There, surrounded by similar uses, it would presumably do little harm.

The zoning idea has a certain appeal. What, after all, could be more simple and obvious? If land usage seems imperfect, all that is needed is the enactment of a set of laws compelling proper behavior. Arguments for zoning are so widely made and frequently accepted that even those who otherwise appreciate the merits of the competitive market system have felt constrained to make an exception in this instance. In view of this state of affairs, and given the serious drawbacks in zoning which are continually making themselves felt, it is of the utmost importance to

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consider such legislation clearly and dispassionately.

Confronting the charge that zoning is all that stands between a viable urban environment and chaos is "Exhibit A," the City of Houston—which has never enacted such legislation. The very existence of a large North American city (an area in excess of five hundred square miles and a population of 1.6 million) which can function normally and continue to grow without zoning is a major piece of evidence against the traditional view that zoning supposedly protects against chaos.

Divergent Tastes

In *Zoning: Its Costs and Relevance for the 1980s* (The Fraser Institute, British Columbia, 1980) a survey is made of several empirical land use studies in Pittsburgh, Boston, Rochester, Houston, and Vancouver. The effects of "incompatible uses" on property values are traced. The overwhelming preponderance of evidence casts serious doubt upon the presence of uniform external diseconomies. (External diseconomies are said to prevail when A harms B by doing C, and B cannot collect damages nor force A to cease and desist from such activities. Uniformity would mean that all market participants view C as harmful.)

The reality appears to be that either there are few significant interdependencies and externalities in urban property markets or that "One man's meat is another man's poison." One and the same phenomenon, such as the presence of commerce in an otherwise residential neighborhood, is interpreted in a positive way by some people and in a negative way by others.

The point is that market processes exist naturally to eliminate such externalities that would arise from the proverbial glue factory on the corner of Park Avenue and East 65th Street. In a system based on the inviolability of private property rights, the laws of nuisance would prevent the dispersion of invasive odors, or dust particles. But the market process functions even without this protection. Quite simply, land prices in the residential or business neighborhoods are too expensive for the glue factory; they effectively prohibit any but the most valuable, concentrated uses—such as large office buildings or high-rise residential dwellings.

This view is supported by Roscoe H. Jones, Houston's Director of City Planning. In his opinion the market "has tended to create a reasonably well-ordered pattern. Because of private 'marketplace zoning,' we find no filling stations at the end of cul-de-sacs; ship channel industries are, naturally, located along the Ship Channel, and so on."

The natural proclivities of the market would also protect against the "hit and run" land developer who

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is said to leave an excessive population in his wake, swamping municipal services.

A developer who tried to pack too many people into an office building would have difficulty finding mortgage assistance. Lenders would realize that such compressed conditions would overload services, resulting in tenant dissatisfaction, lower rents, and the possibility of mortgage default. It is of course true that builders and lenders can make mistakes, and that some overcrowded structures might be built, but the inexorable forces of profit and loss would ensure that such errors were few in number. Zoners are likewise subject to miscalculation; the problem is that there are no automatic bankruptcy procedures to weed out bureaucrats with poor judgment. One of the most persuasive arguments against zoning is the fact that it institutionalizes errors. In effect, planners do not have the incentives to "get it right," nor do they suffer the consequences of "getting it wrong." The competitive system thus can obviate the need for building height restrictions, set back requirements, floor space ratios, and other bureaucratic measures which artificially attempt to limit density.

Undue Strain on Public Services

The typical pro-zoning argument is couched not in terms of undue strain on halls and elevators, which are internal to the building, but rather in terms of the effects of high density on social overhead capital: electricity, gas, water, sewers, roads, sidewalks, parking, public transit, parks—all of which are external to the subject premises, i.e., externalities.

But this should give us pause for thought. For surely there are other amenities necessary for the successful functioning of a large office building, which are or can be considered externalities, but which do not concern the city planner nor unduly worry anyone else: for example, restaurants, barber shops, banks, jewelry stores, pharmacies, stationers, and the like. One reason may be that every member of the former category is run by public or quasi-public enterprises while the latter are all managed privately.

When the excavation for a new office building is begun, the small merchants in the neighborhood roll up their sleeves in anticipation of the new customers and additional profits likely to come their way. Their first thoughts are concerned with physical expansion, adding extra shifts, providing more services. The contrast with the bureaucratic orientation is stark indeed. At the prospect of new building, the bureaucratic tendency is to ponder the "strain" additional hordes of people will place on public services. Their answer is to place a myriad of zon-

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ing restrictions on the new builders, instead of encouraging coordinated expansion.

Thus it appears that if error and hence the need for correction lies anywhere, it is not with the "rapacious builder" who places "strains" on public services, but rather with those charged with the provision of the infrastructure: those in the government sector. Perhaps the answer lies in improving the provision of these services, not in holding down new construction.

The Case of Houston

A useful comparison is the case of Houston. Here the practice is not to hem in the private market with a bewildering array of complex zoning restrictions, but rather to *cooperate* with the land developer by forecasting the growth patterns in order that the city government may supply the necessary municipal facilities and services. It must be emphasized that zoning is only one weapon in the planning arsenal: even were these restrictions scrapped in their entirety, the public authorities would still exercise great control over land use patterns through (1) provision of infrastructure and amenities, such as parks, water mains, sewer placements, and the layout of freeway and major arterial streets; and (2) direct land use controls concerning building heights, set backs, floor space ratios, and the like, but applied uniformly to an entire city, and not differentially to districts within its boundaries.

This does indeed undercut much of the case for zoning. But in the interest of creating further discussion, one might even question whether government has a comparative advantage, vis-a-vis the market, in the creation of such products and controls. Without a market-created price system, it is extremely difficult for the public official to rationally allocate resources. Moreover, no profit or loss automatically accrues to him as a spur in decision making. He risks none of his own money, and can earn no honest profit from correct choices.

Declining Property Values

There are few things feared more by the average urban property owner than declining residential values. This is understandable, for much of the real savings of the typical citizen is tied up in a single family house. Perhaps this is the most important explanation for the high regard with which many citizens hold zoning legislation—it is supposed to protect property values.

But the view that zoning is the best guarantee of stability is inconsistent with the evidence: The stability of neighborhoods that zoning seeks to protect thus appears to be endangered by the rezoning that is part and parcel of the enactment of

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zoning by-laws in the first place. What security can zoning provide against the possible ravages of the glue factory if its provisions can be rescinded at any time?

Of far greater reliability may be the system of deed restrictions, or restrictive covenants, as practiced in Houston, whereby the property owner may contract with his neighbors concerning the uses to which land may subsequently be put. Alternatively, land developers may require, as a condition of sale, that all purchasers agree to continued land usage, either for a stipulated (long) period of time or until a majority vote of such buyers overturns the agreement.

This system is far more flexible. Even the maintenance of single-family neighborhoods by zoning statutes is questionable: by keeping land and buildings in the same use over time, zoning can promote neighborhood decay and speed the demise of the single family neighborhood. Zoning is a rigid control, and is likely to fracture during times of change in consumer tastes, neighborhood demographic structure, urban growth, and transportation and building technologies.

No Guarantee of Values

Ultimately, of course, there can be no absolute guarantee against declining property values. A fall in the price of wood, an increase in the market rate of interest, the sale of publicly held lands, technological improvements in prefabrication methods can all reduce housing prices. One might perhaps contract with an insurance company for the preservation of home values, but the cost of the premium payments would have to be subtracted, thus defeating the plan.

Value preservation is a will-o'-the-wisp, for price is a manifestation of the worth placed on an item not by one person, but by two groups: potential sellers and potential buyers of items like the one in question. We can not speak with certainty of the value an owner will place on his home in the future; it is even less possible to assess the worth a future hypothetical buyer will give it. It is clear, moreover, that that which is owned is the physical house, and not its value. For while the owner has a right to collect damages from the boy who breaks a window with a ball, he has no such right with respect to the man who invented prefabricated housing—even though the latter might well have been responsible for a greater drop in the value of his house than the former.

While citizens have a clear and obvious right to have their homes protected from physical damage, this does not apply to the *value* of their property. Yet this is precisely what zoning seeks to preserve. Thus not only must such legislation fail to ac-

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complish this task—it would be improper even if it could do so.

Uniformity

Another shortcoming associated with zoning is the uniformity it engenders. And this is not surprising: to divide all building into residential, commercial, and industrial, as the early enactments did, and then to impose these three categories upon the entire pattern of future construction, is hardly likely to foster architectural innovation.

This rigidity soon became evident, and an effort was made to become more "flexible." The zoning codes added variances, exceptions, Planned Unit Developments (any excess building in one parcel is to be offset by a reduction in another within the planning district), mixed-use zones, performance zoning systems, land use contracts, and development permits. In one respect these reforms were a plus, for the system became less rigid. But this change ushered in a new crop of problems. For one thing, the system became even more complex. Literally dozens of districts have been defined; what may and may not be done with each is subject to a bewildering and growing number of regulations. The days of three-district zoning with two or three pages of regulations have long since passed. Today's ordinances are continually growing to accommodate more detailed regulations of use, lot size, building height and bulk; more reasons for granting variances, bonuses, and special exceptions; and much more complicated procedures for appeals and reviews. Today few sets of zoning regulations appear in tomes of fewer than 500 pages.

A system with so many complications, exceptions and changes could no longer be governed by any clear set of rules or principles. The procedure instead became one of "judging each case on its merits" in an ad hoc manner.

Although this might appear to some as fair and judicious, the flaws in it are grave. First, it is a clear retreat from the idea of zoning itself. According to this philosophy, urban planners were assumed to have enough wisdom to forecast, at least in broad brush strokes, the future spatial organization of the city. But the very need to grant numerous exceptions, as a continuing institutionalized process, has belied this claim. Ability to incorporate the needs of a changing future is simply incompatible with patchwork changes as reality confronts the master plan. It is akin to claiming the ability to forecast inflation for the next five years—and then changing the prognostication each week.

Secondly, as Nobel Laureates Milton Friedman and Friedrich Hayek have so eloquently shown, "judging

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each case on its merits" is the *absence* of lawfulness—not its presence. Each has demonstrated (the former in his analysis of "rules not authorities" in monetary policy; the latter in his work on the "rule of law") that to consider matters on a "case by case" basis is to color the judicial process with stultifying arbitrariness.

The Rule of Law

The proper scope of government, in this view, is to set down the rules of the game, clearly, and before the contest begins—and then not to continually alter them in the midst of the fray. Under these conditions, the individual is free to pursue his lawful ends, secure in the reasonable knowledge that the government powers will not suddenly be used to frustrate him at every turn. But a zoning system, especially a "flexible" or "reformed" one, can change the uses to which a land parcel may be put at any time. It is thus clearly destructive of these ends.

Thirdly, zoning complexity and changeability have spawned graft and corruption. The reason for this is easy to discern: a less restrictive variance may be worth millions of dollars to the land developer. Be the bureaucrat ever so honest, he will be sorely tempted by a share in these gains—especially in an era where rezoning is an easily contrived and commonplace occurrence. Paradoxically, this is not necessarily all to the bad. If a bribe can convert a land parcel to a use more highly prized by consumers, wealth and the allocation of resources will have been much more nearly optimized. This is not the first case on record attesting to the benefits of black markets. The great loss, however, is the general disrespect for the law engendered by this practice.

Private Zoning

If zoning can be defined as matching specific areas of land with particular uses, then nothing said above should be interpreted as opposing *private* zoning. Indeed, it is impossible for any rational land developer to act in any other way. He must, if he is to function at all, decide to place the garage here, the house there, and the backyard elsewhere. How else could he conceivably operate? But this is all that is meant by private zoning.

The case is an exact parallel to the planning debate. As has been said many times before, people must plan if they are to act rationally. The debate, then, is not between planning and non-planning. It is between central planning, on the part of the government, and individual planning, as coordinated through the marketplace. Similarly the real issue here is not the choice between zoning and non-zoning; it is between private and governmental zoning. What has been

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criticized above is *government* zoning, not the private variety.

What is private zoning? The most well-known example is, of course, Houston's system of deed restrictions. Private zoning also takes place every time a glue factory is priced out of a residential neighborhood, or whenever the gas station locates on a major thoroughfare, not in a side street. But it also includes such prosaic activities as the individual's arrangement of household furniture, the office's placement of desks and room dividers, the factory's disposition of machines and guardrails, and the shopping mall's apportionment of its tenants.

Items for sale must be deployed in the most advantageous manner possible. Thus merchants match store areas to particular uses. The success of each enterprise rests, in great part, upon the skill in such "zoning." If the grocer discovers, for example, that apples and oranges sell better in close proximity, or that the juxtaposition of corn and peas detracts from the sale of both, without any offsetting benefits on the remainder of the stock, he can profit by incorporating this information into his "zoning" decision making. He will gain a competitive advantage over those of his colleagues who are not similarly skilled. It is in this way that the market promotes efficient zoning.

The same process is at work in shopping centers and malls. Since the various tenants are contractually unrelated to one another, the situation is closely analogous to governmental zoning. Private entrepreneurs, however, are judged, in their profit and loss accounts, by how well they promote positive externalities and repress negative ones. And, in fact, it is difficult to imagine two "incompatible" tenants adjacent to each other in a shopping mall. Any such mal-zoning would only, in the long run, reduce the landlords' total receipts.

There is a vast reservoir of private zoning efforts operating in the economy, unreported, under-publicized. This brief discussion has barely scratched the surface. But it can be viewed as one more aspect of the case against public zoning efforts.

What public policy recommendations follow? Although one must always be cautious and realize that no one solution can offer a total panacea, there is a strong presumption toward the non-zoning extreme of the spectrum. After all, zoning has not worked very well. The externalities that it is designed to ameliorate have been shown to be minimal or non-existent. The maintenance of single-family neighborhoods by zoning statutes is also questionable.

One might even take an extreme position here, and advocate abolishing the system of government zoning—root and branch.

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Roger Ream

What Causes Wealth?

THE POOR are still with us. Despite tremendous advances in agriculture and industry, poverty persists. But why? Why do some people suffer lifelong poverty? Why do others enjoy high standards of living? What makes possible decent, even comfortable, conditions? These are age-old questions.

Over the centuries the normal human condition has been subsistence in a state of relative poverty. Wealth was the exception rather than the rule. The first major work of economics, written in 1776 by Adam Smith, was appropriately entitled *An Inquiry into the Nature and Causes of The Wealth of Nations*. It was the existence of wealth and prosperity that required an explanation, not the fact of poverty; hence economists and social scientists beginning with Smith have sought to discover the cause of wealth. An examination of the shortcomings of many common explanations for the existence of poverty offers insight into the real cause of prosperity.

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Over-population. One popular claim is that poverty exists because of over-population. It is said that countries with large populations, such as India, Bangladesh, and the People's Republic of China, suffer from poverty because production cannot possibly be great enough to feed, clothe and house adequately the millions of people. If leaders could only convince their people to practice birth control, so the argument goes, the standard of living would begin to rise to a decent level.

This explanation has shortcom-

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ings. It ignores the necessity for considering the size of the population in relation to the area of a country. For every country of high population density that is impoverished, such as Bangladesh, relatively populous and prosperous Japan, South Korea, Taiwan, the Netherlands, Singapore and Belgium may be cited. And among the sparsely populated countries, the prosperous United States may be listed along with some of the poorest countries of Africa. Actual population levels, as well as population densities, fail to explain why some countries are poor and others prosperous.

The poor are "lazy." Another familiar argument is that the poor are lazy people with low levels of intelligence and few natural talents. This line of reasoning often takes on strong racial overtones. It also seems to be inconsistent with a number of basic facts.

We have the examples of millions of supposedly inferior people who left impoverished countries, became prosperous and made tremendous scientific, cultural and material contributions in their adopted nations. In *Wealth and Poverty,* author George Gilder concluded after studying the remarkable achievements of several Lebanese families in the Berkshires: "Other immigrants in every American city—Cubans in Miami, Portuguese in Providence and Newark, Filipinos in Seattle, Koreans in Washington, D.C. and New York, Vietnamese in Los Angeles, to mention the more recent crop—have performed comparable [to the Lebanese] feats of commerce, with little help from banks or government or the profession of economics." He goes on to observe that during the seventies, "America underwent one of its prime epochs of immigration, comparable to the great floods of Irish, Italians, and Jews in the nineteenth and early twentieth centuries. Four hundred thousand legal immigrants a year entered the country along with some eight hundred thousand undocumented aliens, and everywhere they went they found and created jobs."

The peoples of East and West Germany have a common ancestry and history, yet one country flourishes while the other strains under economic difficulties. Likewise with the Chinese in Hong Kong and Taiwan, contrasted with their relatives and former countrymen in communist China. Compare the Ivory Coast with its neighbors. Clearly, poor people in general are not less intelligent, less talented, or inherently ill-disposed toward work; the cause of their poverty is to be found elsewhere.

Poor nations lack natural resources. Another reason people are poor, some analysts contend, is that certain countries are not endowed

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with the necessary type or the proper quantity of natural resources. It is difficult to sustain this assertion, considering the fact that many of the most resource-rich countries are poverty-stricken, while many wealthy nations are less well-endowed with resources. Examples of the former include most of the nations in Africa and South America, while in the latter group of poorly endowed can be found Taiwan, Japan, and most Western European countries. Even the member nations of OPEC, rich in oil, are unable to build a strong industrial base and raise the standard of living for their people to above average levels. There is more to prosperity than the mere presence of natural resources.

Prosperity causes poverty. One of the most extraordinary sentiments existing in the United States today is that high incomes and high profits are unearned or undeserved, while welfare payments are ethical and necessary for achieving "social justice." According to this view, wealth is obtained through exploitation or luck and therefore is possessed unjustly. This sentiment is the cause of tremendous suffering and poverty. It is doing more harm to the poor than any other idea that has surfaced in the past several decades. Furthermore, it contributes to the conflict, hatred and envy that poison our society.

Derived from this sentiment is the explanation that prosperity causes poverty. As contradictory as this may seem on the surface, it is perhaps the most prevalent explanation. The creation and accumulation of wealth by some individuals causes others to be poor, so runs the theory. Poverty is the consequence of an unequal distribution of income; the prosperity of some comes at the expense of others. The acceptance of this fallacy has given rise to our conflict society, where the haves are blamed for the conditions of the have-nots. Feelings of guilt are often aroused in the former, while in the latter it stirs up envy and covetousness. Overall, it increases tension in society.

This fallacy results from a failure to understand the true nature of both poverty and prosperity. A survey of history and various cultures clearly shows that poverty is the natural state of mankind. It exists without external causes; it is just there. Wealth, on the other hand, is an achievement and requires specific conditions. Wealth will be created and the standard of living will rise only when the necessary preconditions are present.

However, under certain conditions there is some truth to the claim that wealth causes poverty; therefore it cannot be wholly dismissed. In a closed, collectivist society, the slave owner or communist party of-

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ficial does indeed gain his wealth at the expense of others. The wealth of the elite comes at the expense of the slave or the proletariat, thus typifying the theoretical model of a zero-sum society in which an increase in one individual's slice of the pie causes another's to shrink. However, this zero-sum (or more probably negative-sum) situation applies only to stagnant systems which are based on slave labor and collectivist economics. In closed societies, the slaveowner and commissar gain at the expense of others; greed, when backed by coercion, causes some to be poor.

Having stated this qualification, it must be made clear that in open, competitive economic systems, wealth and an unequal distribution of income do not cause poverty. It is a myth that the prosperity of some causes others to be poor. The United States is frequently condemned because with less than 5 per cent of the world's population, we consume a large portion of the world's resources. This criticism is based on the fallacy of the fixed pie. Individuals in the U.S. are not consuming at the expense of others; what we consume must be either produced or acquired through voluntary exchange. We do not consume goods and services that have always existed and which we simply grab up; we consume only what we produce, transform or acquire through free trade. In a free market economy, you cannot consume unless you first produce or exchange.

The nature of wealth. Adam Smith recognized the nature and cause of wealth; it results from the development and extension of the division of labor. As Smith observed, "It is the great multiplication of the productions of all different arts, in consequence of the division of labour, which occasions, in a well-grounded society, that universal opulence which extends itself to the lowest ranks of the people." This market process is the source of wealth, since it brings individuals freely pursuing their own interests into voluntary cooperation with others. For example, an individual who specializes in mechanics, cooperates, perhaps unknowingly, with those specializing in physics, chemistry, meteorology, mining, steel production, and hundreds of other fields to create travel by airplane and make it possible to fly to almost any major city in the world. It is through the division of labor, peaceful cooperation, and free exchange—the market process—that wealth is created.

Writing nearly one century after Smith, Herbert Spencer also recognized the source of wealth. In *Man vs. the State* he observed:

> It is not to the State that we owe the multitudinous useful inventions from the

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spade to the telephone; it is not the State which made possible extended navigation by a developed astronomy; it was not the State which made the discoveries in physics, chemistry, and the rest, which guide modern manufacturers; it was not the State which devised the machinery for producing fabrics of every kind, for transferring men and things from place to place, and for ministering in a thousand ways to our comforts. The world-wide transactions conducted in merchants' offices, the rush of traffic filling our streets, the retail distributing system which brings everything within easy reach and delivers the necessaries of life daily at our doors, are not of governmental origin. All these are results of the spontaneous activities of citizens, separate or grouped.

The market process is the source of *new* wealth. It does not redistribute wealth to the powerful at the expense of others, such as in a collectivized economy; rather, it enables new goods and services to come into the marketplace. A free market system is a positive sum system. Remarkably, the standard of living can rise, even though the population is increasing, because the total amount of wealth is not fixed. Transfer payments, on the other hand, come at the expense of wealth creators—workers, businessmen, investors, and successful entrepreneurs.

Contrary to popular sentiment, high incomes and high profits are key elements of the process which generates our prosperity. High incomes and profits are the reward a person receives for serving his fellowmen. More specifically, profits are the reward for reducing costs and using scarce resources most efficiently in the competition to satisfy consumer desires. By rewarding with profits those who successfully satisfy consumer demand, the free market maximizes the incentives to create goods and services. By permitting the accumulation of wealth, it also maximizes the amount of capital available to produce more. Profits direct this capital to where it is most vitally needed in order to meet consumer demand. Even Samuel Gompers, father of the American labor movement, recognized that "the worst crime against working peoples is a company which fails to operate at a profit."

Envy, covetousness and hatred toward those with wealth is ill-advised. As Ludwig von Mises pointed out in *Human Action,* "The very principle of capitalist entrepreneurship is to provide for the common man. . . . There is in the market economy no other means of acquiring and preserving wealth than by supplying the masses in the best and cheapest way with all the goods they ask for." Evidence of this was the success of that creative genius, Thomas Edison, who fulfilled his pledge to make the light bulb so cheap that only the rich could afford candles. As Brian Summers com-

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mented in the Spring, 1981 issue of *The Lincoln Review*, "It is true, . . . that a few captains of industry accumulated great fortunes, but they became wealthy through mass production of goods and services which raised the common man's standard of living."

Prosperity requires liberty. High incomes and profits, the incentives to invest and produce, are put to work, provided they are not confiscated by government. The motive for wanting a larger income and higher profits should not be a concern of economics; whether for a base reason or a high-minded objective, the only way to get more, in a free market economy, is to serve others. The way to lessen poverty is to create a favorable environment for investment and wealth creation. In fact, when William E. Simon was Treasury Secretary, he suggested to a Senate committee that, "If you really want to help the poor, help the rich. They're the ones who will invest, build more factories, create more jobs." The only "help" the rich need is the same freedom to which all men and women are entitled, the freedom to produce, to trade, and to use their property peacefully and as they choose. Ultimately, the extent of the market process is in direct relation to the amount of freedom in society.

A free market can be restored and the division of labor extended only as barriers to saving, investment, the accumulation of wealth, and the maximization of profits are removed, and most essentially, laws regulating or prohibiting the performance of productive labor are repealed. It will also require government to perform better one of its key functions: protecting every citizen's right to own and exchange property. This fundamental human right is necessary for the production of wealth.

The free market is in the interests of the poor. The alternative, the transfer system, is *not* humane. It locks people into poverty by destroying opportunities and prohibiting many kinds of productive work. The welfare state encourages dependence, rather than self-reliance. The welfare recipient is deluded into believing there is such a thing as a free lunch. In a free market it is necessary to give in order to receive; in the welfare state, the scheme is to try to live at the expense of others.

Scarcity, and therefore relative poverty, are part of the nature of this world in which we live. Historically, mankind has subsisted in what, by today's standards, is abject poverty. However, poverty need not be a permanent condition. It can be and has been overcome by people at various times in history. Our Pilgrim Fathers overcame starvation by replacing their communal system

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of economic organization with a private property order. The experiment worked. A turnaround occurred again in Great Britain in the first half of the 19th century when Parliament replaced mercantilism with free trade policies. Standards of living rose, not just for Englishmen, but for countless individuals throughout the world. And, of course, we have evidence of what relative freedom in this country has meant for not only the American settlers but for the millions of immigrants who came to these shores, not to share the existing material abundance, but to share in the freedom to try to create their own. With this relative freedom a more humane and prosperous society has emerged.

Perhaps the clearest statement concerning the threat we face today, and which all free people will always face, was expressed years ago by President Woodrow Wilson. He observed, "The history of liberty is a history of the limitation of governmental power, not the increase of it. When we resist, therefore, the concentration of power, we are resisting the processes of death, because concentration of power is what always precedes the destruction of human liberties." This astute comment can be aptly rephrased to include the concepts of poverty and prosperity, for concentration of governmental power and poverty go hand-in-hand, while human liberty and prosperity have always accompanied each other. Regardless of the sincerity of the intentions, to restrict freedom in the name of helping the poor is to engage in a destructive endeavor. The creative way to help the needy is to secure the freedom for individuals to pursue their interests voluntarily and peacefully. In such pursuit, free men will bring about an expanding economy, unlimited opportunity, and enduring prosperity.

IDEAS ON LIBERTY

Edward P. Coleson

TO HAVE LIVED in some remote "native" village long enough to know how their social curbs on progress operate is to understand why the best laid plans of economic development schemes have a way of failing utterly. Without freedom to achieve and without a measure of security for life and property, aid is useless; and with freedom, it is unnecessary. Any enterprising investor is happy to put his money into a going concern and nothing succeeds like success. But the rigidities of a managed economy stifle initiative and scare off venture capital, keeping the depressed area stagnant and backward. Only a rich country can afford the economic interventions of socialism—and they can't afford it for long.

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Esler G. Heller

Paternalism and Charity in a Free Society

A GREAT TRUTH is very simple; a great error is being perpetuated behind a facade of complexity. The great truth is that only a limited government free society would provide the framework and atmosphere in which human beings (free from arbitrary compulsion in all creative aspects of life) could achieve their greatest spiritual and material growth with the least opportunity for mischief.

The great error is in thinking that to achieve peace, prosperity, and justice, the interdependence, high technology, and infinite complexity of our society require that its guidance and control be vested in a technocratic state of great power and matching complexity.

In spite of its size, complexity and pretensions of equalitarianism, the authoritarian state is unable and unwilling to deal effectively with individual inequalities. Therefore it divides its subjects into special groups and attempts by legislative compulsion to satisfy the "rights" (read *demands*) of each group at the expense of all others (excepting of course the state and its cohorts). Thus it tramples on the basic principle of freedom: that when the true rights of individuals are protected, the rights of all groups are protected. Government favors to one group must be at the expense of others. The effect is to pit group against group, establishing fairly rigid classes in what was to have been a classless and mobile society.

A cherished myth of statism paints the free society as wonderful for capable, ambitious, self-reliant, self-sufficient, and wealthy persons, but unacceptably harsh toward those of lower levels of ability, motivation,

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and resources. The proffered solution is the welfare state. The welfare state may impose a degree of material equality, spiritual atrophy, suppressed rage, and destruction of self-respect among the governed. However, the real inequality of material benefits and power enjoyed by the elite upper echelons of the establishment contrasted with the hardships and impotence of the rest of the people is an ever-widening chasm.[1]

Those who have faith in freedom believe that within the limited-government and free society all economic and psychic factors are automatically integrated in the most harmonious arrangements possible for the essentially good, but nonetheless flawed, nature of man. The free society tends to develop virtue and discourage vice, using no compulsion except to restrain the initiation of violence and fraud. History confirms this faith. Periods of greater freedom have invariably coincided with more peace, justice, and prosperity.

Vital Differences

The welfare state establishes a certain inescapable level of dependence and servitude for both ruled and rulers. The free society embodies a free market which offers whatever degree of independence or dependence, self-sufficiency or paternalism, solitary effort or cooperation each unique individual finds most compatible with his estate (age, health, wealth, education, personality, tastes, and character). The free market most efficiently allocates not only material goods, but also psychic, spiritual and emotional values as well. Each member of a free society has the maximum opportunity to choose that degree of independence or subservience, responsibility or submission to authority that best suits him at any given time, and to change this voluntary arrangement as he and his needs change.

Persons, groups, business and religious organizations eager to fill the role of friend, helper, healer, advisor, consultant, teacher, guardian, insurer, employer, master or guru exist today, and more would spring up as government restraints were removed. Their existence and growth in spite of the pre-emption of resources and assumption of responsibility by statist governments, and in spite of the social unrest and resentment generated by government usurpations, is strong proof of man's instinct for freedom. It also reflects a natural rebelliousness to government interference.

In a free society, those in need of help would not have to seek out and importune their prospective "benefactors." Each needs the other, and

[1]See George Feifer, "Russian Disorders," *Harper's* (February, 1981), pp. 41–45.

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from motives of material and psychic profit there would be a mutual search—a competition for clients and services just as producers and buyers of goods in a free market compete to cooperate most advantageously with each other. The same applies to charity. It is also an exchange transaction between willing parties in mutual anticipation of finely interwoven psychic and material benefits.

Mutual Responsibility

Without the coercive power of the state to establish or support welfare monopolies, doers of good works must court and gain the consent of their prospective wards, clients, congregations, pupils, and the like. The recipients of charitable acts and gifts must also act to make the exchange attractive—that is, acceptable to the giver. This imposes a degree of responsibility and therefore an opportunity to retain self-respect which tends to be lacking where government favors such as guaranteed income, housing, education, and medical care are treated as "rights" to be claimed, but not necessarily deserved.

The Hebrew prophets and Jesus teach us to do charity willingly, cheerfully, and preferably, anonymously. How, except in a free society, is this possible? Under statism the establishment does its good works with other people's money. It regards redistribution, not even as charity, but as a necessary evil—a prophylactic measure to keep the masses dependent and pacified. The poor recognize the dole for what it is, and are demoralized. Those of a cynical nature push their demands to the utmost. The vicious and audacious see it as confirmation of their self-pity and justification for robbery, theft, rioting, and looting.

This malaise is compounded by the nature of "welfare" laws and social "achievements" such as restrictive child labor, minimum wage, and organized labor laws which keep the poor in enforced idleness. Simultaneously the wealthy and tax-producing members of society are deprived of the opportunity, the incentive, but most of all, the means to perform charity. State-enforced redistribution, far from being charity, is recognized by both expropriated and recipients alike as injustice institutionalized.

Private charity is very much alive in the United States, and growing to compensate for government failures and government-created hardships. The sacrifice and generosity of millions of persons supporting the panoply of recognized voluntary organizations and informal ad hoc groups, together with innumerable daily instances of person-to-person help, is preserving our sense of moral responsibility to aid one another. The total amount of private charity is

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vast, and cannot be measured in dollars alone. It is efficient and humane, and characteristically American. It puts the lie to "liberal" assertions that, without government redistribution, suffering and privation would sweep the land. Careful observation reveals misgovernment as the principal cause of the hardship that redistribution purports to relieve. It confirms libertarians in their faith that had people the freedom to control the fruits of their own labors, philanthropy and charity would flourish as never before.

How to Proceed

All discussions of the free society eventually lead to the problem of how to get from here to there. Sadly, there is no "freedom button" to press which will instantly remove "all man-concocted restraints against the release of creative energy" together with the cumulative effects of past restraints. While we cannot learn to swim without water, neither should we push the non-swimmer into a raging torrent. Many persons, through little or no fault of their own, are now largely dependent on government dole. It would be an injustice to punish them for the sin of those who encouraged or permitted the government and the establishment to manipulate them into this dependency.

To suddenly impose severe hardship on these unfortunate persons would not advance the cause of freedom. The most recent Libertarian Party presidential candidate, Ed Clark, has said that welfare should be among the last governmental institutions to be dismantled in the move to freedom. Only when the public is prepared to follow leaders truly committed to freedom, who will irrevocably renounce man's ages-long dalliance with authoritarianism, can freedom be approached. At that point a phased withdrawal "with all deliberate speed" from compulsory schemes of redistribution would be possible.

The free society, far from lacking compassion toward persons with physical, mental, moral, social, or economic handicaps, will prove to be both just and compassionate, not only to the disadvantaged, but to all persons and groups. It permits those who can fulfill their own responsibilities and still have human or material resources left for philanthropy, those who would be teachers, helpers, defenders, leaders, to make a myriad of voluntary arrangements with their fellows for mutual betterment and satisfaction. Compulsion can only teach compulsion, but voluntary good works are an encouraging and uplifting example. Absence of compulsion is essential to civilized progress, and is the essence of the free market, true charity, and liberty.

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Clarence B. Carson

Missing Chapters from American History

It has fallen to my lot over the past two decades to examine and write reviews of a goodly number of textbooks. Most of those reviewed have been intended for use in the high schools, though some have been designed for use in colleges as well. I have reviewed scores of books on American history, an armful on world history (or European Civilization, as the case might be), several dozen on such varied subjects as American government, civics, problems of democracy, citizenship, and such like, a few on economics, a handful on geography, and several that hardly fit any known category.

Having toiled in this particular vineyard off and on over the years, perhaps, I have qualified myself for drawing some conclusions, particularly about history textbooks. The conclusion I wish to emphasize here, of course, is that there are some chapters missing from history textbooks. But I also want to make clear that their absence is not simply incidental, and that their inclusion could have been of considerable moment. They are at the heart of the American experience, and the lessons which could be learned from them could have changed—and still might change—the direction of our development. The reason for this can be made clearer, however, by calling attention to some other conclusions I have drawn before discussing the missing chapters.

My most general conclusion is that the quality of these books has declined over the years. The quality did not begin to decline when I started reviewing them—at least, I

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hope it didn't—but it has gone down precipitately in recent years. I am not referring, of course, to what might be called the physical attributes, such as binding, paper, print, or any of the aspects of reproduction. So far as I can judge of such things, that has generally improved.

Declining Quality Evident in Contents

What has declined in quality has been the contents. History used to be mainly narrative, supported by explanation and some analysis. Such narrative as remains in many books is now segregated from the rest of the contents by being set in boxes located here and there throughout the book. Analysis is often supplemented or supplanted by "attitudinizing"—as, "What is your opinion of thus and so?" Oversimplifications usually abound, but they are overshadowed by exaggerations which became more commonplace as graduates of the student revolution in the 1960s began writing textbooks.

But the written material in many books has to be squeezed between the overabundant pictures, drawings, charts, graphs, and maps so that if there were a story line to follow only the most tenacious could do so. As illiteracy has spread upward through the grades, the necessity for and the opportunity to read is being progressively removed from the books. Some of the books ape television with its constant shifting from one scene to another, one topic to another, and one idea to another. The assumption informing some of them seems to be that children have an attention span of ten seconds at most, and my suspicion is that it is a self-fulfilling prophecy.

Even so, the decline in the quality of textbooks is more of an effect than a cause, an effect of the general deterioration of education in the United States. Given the premises and the political control of education that prevails, the quality of textbooks must decline. Moreover, given the disorder and indiscipline which is commonplace in many high school classrooms, it would affect matters only marginally if all textbooks had the uniform high quality of Gibbon's *Decline and Fall of the Roman Empire*. Most schools are far too crowded with those who cannot or will not learn for textbooks to make any critical difference. Laying the responsibility on the textbooks alone would be like placing the blame for sinking in quicksand on the quality of shoes you happen to be wearing.

While there may be a thousand—or ten thousand—particular explanations for the deterioration of education in the United States, there is one basic reason which underlies most, if not all, of them. Virtually every public problem associated with education today is traceable to *forced* schooling and the extensive and in-

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creasing use of *force* in support of schooling.

For example, why has the quality of textbooks declined? Because as force became a dominant factor, the emphasis shifted from quality to quantity. Because schooling tended to replace education, since education is always qualitative while schooling is quantitative. Because you can force people to attend school, but you cannot force them to learn in any meaningful sense. Because quality of education and equality of schooling are incompatible with one another. Because textbooks are provided free of charge, and their selection is largely dictated by political considerations. Because if forced schooling is even to appear to succeed, what is taught, and the books used to teach it, must be geared toward the lowest common denominator of students. Because each step downward in the desperate effort to reach this lowest common denominator has ramifying effects which extend upward to affect the following years of schooling, the quality of teachers, the quality of administrators, and so on. Because ultimately, even the writers of textbooks will be deficient in that level of understanding which is necessary to produce quality textbooks, even if there were any significant market for them.

It would be possible to trace out many of the other effects of forced schooling in a similar fashion, but there is not space to do so here. Perhaps, it is unnecessary to do so, however instructive the attempt might be. Perhaps, the reason can be sufficiently summed up this way. The state, i. e., government, is incompetent to serve as schoolmaster. Allow me to cast my net wider, however, so as to make the point more expeditiously. Government is incompetent as a provider of economic goods and services. This incompetence has been exposed in theory, demonstrated in practice, been tried on vast scales and found unworkable, and can be illustrated with mountains of evidence. The incompetence of government as a provider of goods and services is directly attributable to its use of force. Force is inefficient in the production of goods and counterproductive in the distribution of goods. Hence, the incompetence of the state as a provider of goods and services.

A Marketable Item

Education is an economic good, or service, if you will. The fact that it has so often been treated as if it were not has misled many of us. Forced schooling makes it appear that it is an economic "bad," and the compulsion tends to make it into that. Charitable and tax support of education tends to set it apart from a whole host of other goods. To the extent that it is free, it takes on the illusory character of being noneco-

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nomic in character, useful, perhaps, just as is air, but noneconomic.

But, so far as education supplies some human want, so long as the supply of it is limited, so far as there are costs entailed in its attainment, so far as the allocation of scarce resources—whether they be time, teachers, books, classrooms, or what have you—are involved, it is an economic good. Moreover, education is an economic good which is, can be, and has been provided in the market. It can be broken down into its parts and distributed according to demand. It is possible to buy as little or as much of it as is wanted by the individual, and its distribution does not necessarily entail any imposition upon others. In short, it meets all those characteristics of an economic good which can be provided in the market.

It follows, then, if the above be accepted, that government is both incompetent and unnecessary to the provision of education. But the incompetence of government as a schoolmaster has dimensions which do not apply to many other goods. If government should undertake to monopolize the production and distribution of milk, for example, it probably would register its lack of competence in raising the price of it and show its authority by reducing the number of outlets. Its distributors might adopt the hauteur of postal clerks. Even so, it is doubtful that government provision of milk would carry in its wake the host of ills that attend government provision of schools.

It would probably still be permissible to pray over government-produced milk without violating the establishment clause of the Constitution. If the government should undertake to provide sex education for the cows it would probably arouse no deep human concern. Even the quality of milk would not necessarily be lowered, though it might be unpalatable to the taste because of chemicals introduced into it. I guess the fluoridation of milk would be controversial. But, by and large, government might provide goods for the body with only a limited impact on us. But when government undertakes to provide goods for the mind and spirit it necessarily intrudes into every nook and cranny of life.

The missing chapters from American history not only point toward these conclusions but also offer evidence for more fruitful approaches than some of those we have taken in more recent years.

Religious Freedom

The first missing chapter that comes to my mind is one on the development of religious freedom in America. It is also the one most relevant to education. Most textbooks mention religious freedom, of course. They may touch upon it in some

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fashion in their discussion of the settlement of the colonies. It may be well to mention, in this connection, that most high school textbooks give short shrift to the colonial period. There is even an educationist theory, apparently widely accepted, that colonial history should be dealt with extensively in the early grades and treated in a cursory fashion in high school. In consequence, they do not allot anything near the space necessary for adequate treatment of religion. Again, religious freedom may get a sentence, or even a paragraph, in the discussion of the First Amendment. That is about it. (Some government texts cover the constitutional aspects of the question a little more adequately.)

Establishment Clarified

There are several points that should emerge from any kind of adequate treatment of the development of religious freedom in America. The first one would be a clear presentation of the concept of an established church. This could probably best be done by reference to the Church of England at the time of the establishment of the colonies. Such characteristics of an established church as compulsory church attendance, tax support of religion, and liturgical and doctrinal orthodoxy could be listed. There is considerable evidence that even justices of the United States Supreme Court do not understand what an established religion is, so the subject must not have been well taught for quite some time.

The second point is crucial, if the subject is to have an application to government intervention in other realms. It is to make a careful explanation of why religion was once generally established in most countries. Children are inclined to think that any practices other than those with which they are familiar are odd. Thus, in order for them to understand an established church and its reason for being, it needs to be presented in terms they can grasp. In any case, it needs to be made clear that many people in earlier times believed that religion is the most important thing in life. (Some still do.) It was the greatest and highest good. That being the case, they sought to use the strongest means at their disposal, i. e., government, to see to it that people received its benefits. Moreover, it was widely believed that religion was the cement of society, that all authority flowed from it, and that a people would lack unity who did not have a common religion. People have ever found it difficult to be tolerant about that in which they strongly believe, and they still do.

The third point to make is that religious freedom did not animate most of the settlements in America. Some people came in order to be free

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to practice their particular religions, but they were rarely tolerant of those of different faiths. (The Quakers and Baptists were honorable exceptions to this rule.) Thus, church establishments were widespread in the colonies.

A fourth point is that the belief in religious tolerance began to gain hold and spread during the colonial period. Its development paralleled that of a rising interest in individual liberty in other fields. By the time of the American Revolution, it was sufficiently widespread that several churches were disestablished, and eventually all were. Disestablishment both freed the churches from any government control or support and the people from interference with their religious beliefs.

The Case Against Intervention

The final point has to do with the case for religious freedom, which is, at the same time, the case against government control, support, or interference with religious belief. Thomas Jefferson's argument for freedom of religion points the way. He viewed government-established religion as an attempt to control the mind, an attempt both presumptuous and futile. Men will believe what they will regardless of the efforts of government. "It is error alone which needs the support of government," Jefferson said. "Truth can stand by itself. Subject opinion to coercion; whom will you make your inquisitors? Fallible men; men governed by bad passions, by private as well as public reasons. And why subject it to coercion? To produce uniformity. But is uniformity of opinion desirable? No more than of face and stature."[1]

Jefferson made it clear, too, that similar errors were involved in the use of force in other areas, and no more to be sought than in religion. He said, "Were the government to prescribe to us our medicine and diet, our bodies would be in such keeping as our souls are now. Thus in France the emetic was once forbidden, and the potato as an article of food. Government is just as infallible, too, when it fixes systems in physics. Galileo was sent to the Inquisition for affirming that the earth was a sphere; the government had declared it to be as flat as a trencher, and Galileo was obliged to abjure his error."[2]

Jefferson had these stinging remarks to make on a bill that would have placed control over a system of education in the hands of state officials. "If it is believed that these elementary schools will be better managed by the governor and council, the commissioners of the literary fund, or any other general authority of the government, than by the parents within each ward, it is a belief against all experience. Try the principle one step further and amend the

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bill so as to commit to the governor and council the management of all our farms, our mills, and merchants' stores. No, my friend, the way to have good and safe government is not to trust it all to one but to divide it among the many, distributing to everyone exactly the functions he is competent to."[3]

Economic Freedom

Thomas Jefferson could argue against state control of education by showing the analogy with state control of farms and mills secure in the knowledge that the reader would share his convictions about how ridiculous the latter would be. We are not so favorably situated, for in our day governments, Federal, state, and local, have seen fit to engage or intervene in a mass of enterprises that were once wholly private. This development can be attributed, at least in part, to another missing chapter in American history.

This missing chapter is one on economic freedom. It would probably fit in a textbook best at some place in the early nineteenth century. But such a chapter would need to begin well back in the eighteenth century and probably should go forward in time past the Civil War and the freeing of the slaves. This was truly one of the great eras in history for the development of ideas, the drawing of constitutions, and the adoption of practices in keeping with economic freedom. During this era the residue of Medieval practices were cast off, the bulk of mercantilistic restrictions removed, property became fully owned and disposable by individuals, indentured servitude and slavery abolished, a large portion of a continent opened up as a common market, and all sorts of protections drawn around the contractual powers of the individual.

Not only do most textbooks fail to highlight these changes but they also fail to attribute the remarkable consequences to them. Most American history books have one or more chapters on agricultural and industrial development, of course. Nor do they ignore the fact that at the beginning of the nineteenth century the United States was, in comparison with much of Europe, an economically backward nation. Whereas, before the end of the century this country had emerged as one of the leading industrial and commercial nations in the world. These developments are usually covered in sufficient detail, even when there is considerable niggling about rural and urban poverty and hardship.

But it has long been the fashion to ascribe these economic developments to almost everything but economic freedom: to innovations in technology, to the development of banking, to foreign investment, to American isolation from European wars, and so on. Perhaps the most

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common explanation for American prosperity is what may be called "the abundant natural resources theory." This is the theory that America was especially blessed with natural resources which go far to account for the eventual prosperity. This explanation is both the most common and the least satisfactory of those usually given.

A Resource Gains Value as Use for It Is Found

The most basic objection to this theory is that what is found in nature ordinarily becomes a resource only when some use is found for it and made of it. A stream may be an obstacle or a resource, for example, depending on whether you wish to cross it or float a boat down it. A forest may be an obstacle or resource depending upon whether you wish to plow the land or make lumber. Iron ore only becomes a resource when it has been mined, smelted, had impurities removed, and is turned into objects of use. So it is with almost everything found in nature.

It should be noted, too, that the early English settlers on this continent had little reason to congratulate themselves on their prospects for prosperity because of any obvious resource advantages. The Indians along the Eastern coast were hardly prosperous generally. Indeed, they were probably among the least prosperous in all the Americas, were less numerous than in many other places, and were among the most backward in development. They did cultivate a few crops, such as corn and tobacco, but by and large they were at the hunting and fishing stage of economic development.

But be that as it may, and whatever other explanations may be adduced for American economic development and prosperity, there is one that is central. It is economic freedom. It is the devising of a system within which the energies of a people could be released and constructively employed. It is the constructive employment of the energies of people which turns obstacles into resources, which makes of peace the occasion for productivity, which invents devices and applies technology, and which turned wilderness and barren plains into farms and locales for factories and built commercial centers.

Of course, there was more behind all this than freedom, but freedom provided the opportunity. Something so central to American development deserves a chapter in history textbooks. And if such chapters had been there, it would have been less likely that we would today be in the slough of despond caused by the growth of the interventionist state. We would have been informed of the advantages of freedom and the dangers of intervention.

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Voluntary Cooperation

There is a third missing chapter without which the two discussed above would be incomplete. It is a chapter on the voluntary way of social cooperation. I have never seen a book designed to be used as an American history textbook which had such a chapter. Indeed, I cannot recall seeing one which had a paragraph on the subject, *per se,* and I am not sure I have ever seen a sentence in one. Of course, some voluntary associations—e.g., the American Red Cross—may be mentioned in textbooks, and there are sometimes references to charitable undertakings of a private nature. But the phenomenon of the voluntary approach to social cooperation is rarely, if ever, covered.

Yet freedom evinced itself in two ways in America. It evinced itself in the development of individual rights and responsibilities. And, it evinced itself in voluntary approaches to social cooperation. Nineteenth-century America has often been described as individualistic. So far as it goes, the description is accurate enough for one aspect of the country's ethos. But nineteenth-century America was also much given to social cooperation, individually chosen, and voluntary cooperation.

Europeans who visited America and wrote of it in the nineteenth century often remarked the great variety of voluntary undertakings. An Englishman who did so in the 1830s declared that "the Americans are society mad." He listed a score or so of the most prominent of these, such as, American Education Society, American Bible Society, and so on, but found it necessary to add that there "are many others."[4] Indeed, he had hardly scratched the surface, for voluntary associations ranged from those made for some temporary task to those which led to permanent organizations. Thus, people gathered in rural America for house raisings, quilting bees, corn huskings, and so on. Of a more permanent nature, they formed fraternal organizations, associations of veterans of wars, sporting clubs, professional groups, charitable organizations, and what have you.

But that way of describing it makes voluntary association appear peripheral rather than central to American life. Churches became voluntary associations after they were disestablished. Most schools and colleges were voluntarily organized and run until well past the middle of the nineteenth century. Above all, much work came to be performed in the framework of voluntary association for social cooperation. All sorts of arrangements were revived or devised for cooperation in the production and distribution of goods.

One of the great triumphs of voluntarism unfolds in the story of the churches and religion after dises-

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tablishment. There were undoubtedly those who feared for what would come to pass when religion was no longer upheld by the arm of the state. After all, who would see to it that people went to church? How would ministers be paid if not from some sort of tax receipts? Who would build and maintain church buildings? Who indeed? As it turned out, many people supported religious undertakings with greater zeal after than before disestablishment.

Church Growth the Voluntary Way

Voluntary religion flourished in nineteenth-century America, and has ever since. When William Byrd of Virginia made an excursion to the back country of Virginia and North Carolina in the early eighteenth century, he reported that there were many communities with no sign of a church. An Anglican clergyman accompanied him on the trip, and he baptized many adults who, presumably, had not been in the vicinity of a minister of their faith since their birth. That changed after the Church of England was disestablished. New denominations were born; revivals swept whole areas, and religion took on a peculiarly American vitality. Even a friend of established churches had this to say: "I believe that in no other country is there more zeal shown by its various ministers, zeal even to the sacrifice of life; that no country sends out more zealous missionaries; that no country has more societies for the diffusion of the gospel; and that in no other country in the world are larger sums subscribed for the furtherance of those praiseworthy objects as in the eastern states of America."[5]

The churches are still with us today. They are still free. They are still voluntary undertakings. There are many fine church buildings, beautifully furnished, surrounded by well-kept lawns, and attended by a great host of seekers and faithful alike. But the significance of all this for many other aspects of our lives has been largely lost from view. In the place of established churches we have erected a large number of other government establishments which provide us with many things we judge to be good and which we fear we would be denied did not government provide or support them. There is a corrective for this, I submit, in some of the missing chapters from American history.

—FOOTNOTES—

[1]Thomas Jefferson, *Notes on the State of Virginia* (Philadelphia: Prichard and Hall, 1788), p. 171.

[2]*Ibid.*, p. 169.

[3]Edward Dumbauld, ed., *The Political Writings of Thomas Jefferson* (New York: The Liberal Arts Press, 1955), p. 98.

[4]Frederick Marryat, *A Diary in America*, Sydney Jackman, ed. (New York: Alfred A. Knopf, 1962), p. 309.

[5]*Ibid.*, p. 292.

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Gary McGath

THE INVERTED STANDARD OF CENSORSHIP

In the past year or so, a number of religious and conservative groups have been trying to discourage allegedly immoral television programs by promoting boycotts of the programs' sponsors. Many commentators have denounced these proposed boycotts as acts of "censorship."

Peggy Charren, president of Action for Children's Television, says that "censorship . . . is what this movement is about, regardless of what they're calling it." James Rosenfield, president of CBS, calls boycotts a "technique of attempting to coerce the advertiser through threats and intimidation."[1]

Yet a boycott is simply the exercise of free-market power—the power to deal with someone or not, according to one's own choices. There is nothing coercive about a boycott; the only "threat" involved is the "threat" to take one's money elsewhere.

The claim that a boycott is coercive rests on the unstated premise that the seller has a right to his market, and that the buyer is violating the seller's rights by going elsewhere. But a "right to a market" is a contradiction in terms. If someone does not have the right *not* to buy something, the transaction is not a purchase, but a forced exchange; a

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sale takes place only if both sides are acting by their own choice.

To be precise, a sponsor boycott is a "secondary boycott"—that is, a boycott designed to influence the actions of a third party. In this case, the boycott of the sponsors is intended to influence the producers of TV shows by undercutting their financial support. Secondary boycotts are unpopular, even among some people who otherwise support a free economy. Dr. Sylvester Petro, for example, has called the secondary boycott a "predatory oppressive practice."[2] But the right to decide how to spend one's money cannot depend on the purpose which the spender is trying to achieve. If a person does not wish to buy a product because he believes that buying it will indirectly promote immorality, it is his right not to buy it. If he tries to convince others that his decision is correct and that they should join him in avoiding that product, it is his right to do so.

Whether the boycotters' standards are correct is a separate issue. "Sex and violence" are the principal evils denounced by the advocates of a boycott. It can certainly be argued that there is something wrong with a moral code that regards sex as evil, and that lumps murder together with the punishment of murder as "violence." It can be argued that people who are concerned with morality on television shows would be better off to concern themselves with the ideas promoted by the shows rather than with the number of fistfights and low necklines that are presented. And it can be argued that urging people to simply shut off objectionable programs would be a more direct approach to the issue than boycotting sponsors.

But criticisms such as these are legitimate only when it is recognized that every person has the right to take whatever non-coercive actions he chooses. The distinction between *having* a right to do something and *being* right is vital in this case.

Seeing the Problem

It is possible that some of those who call boycotts "censorship" are expressing doubt about the boycotters' commitment to a free-market method. It is true that opponents of sex and violence in entertainment have frequently enlisted governmental help in enforcing their views. For example, Jerry Falwell of Moral Majority, while calling for a voluntary boycott of broadcast television, has encouraged district attorneys to seek legal regulation of cable television programs.[3] But if these inconsistencies are the real object of the critics' concern, they should be pointing out the inconsistencies and stating that the resort to governmental action, not the voluntary boycott, is an attempt at censorship.

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Moreover, if governmental censorship is anyone's actual concern, it already exists, not as a threat but as an ongoing occurrence. Under Federal law, the government can shut any broadcaster down simply by taking away or refusing to renew its license. For example, a broadcasting company is not free to decide which views it will promote; if it gives air time to a particular view, it must give equal time to proponents of the opposite view. More vaguely, and therefore more dangerously, a broadcaster is required to promote the "public interest." If the FCC decides that a station has not acted sufficiently in the "public interest," the station can be taken off the air, even though it has not been found guilty of any specific offense.

Judging Past Conduct

Why is this governmental control not denounced as "censorship"? One answer that has seriously been offered is that censorship means only restraint of material that has been scrutinized in *advance* of its release, and that shutting down a station for what it has broadcast in the past is therefore not censorship. In upholding the non-renewal of KFKB's license, the District of Columbia Court of Appeals stated:

> There has been no attempt on the part of the Commission to subject any part of appellant's broadcasting matter to scrutiny prior to its release. In considering the question whether the public interest, convenience, or necessity will be served by a renewal of appellant's license, the Commission has merely exercised its undoubted right to take note of appellant's past conduct, which is not censorship.[4]

We may all be greatly relieved to know that when Russia jails dissidents or South Africa shuts down newspapers, they are not engaging in censorship, since they are simply "taking note of past conduct."

But if this standard is applied, boycotts are not "censorship" either, since they are based on the past conduct of broadcasters and sponsors. This definition of censorship by nonessentials is not a serious criterion for anyone, but a screen for a view of censorship that is even harder to put over: that voluntary action to influence a medium is censorship, but that governmental control over a medium is not. This view was expressed with unusual clarity by FCC head Newton Minow when he spoke to the Conference on Freedom and Responsibility in Broadcasting in Chicago on August 3, 1961:

> Naturally our concern here is with two special limitations on censorship: the First Amendment, which prohibits abridgement by the government of freedom of speech, and section 326 of the Communications Act, which very wisely proscribes any censorship by the Federal Communications Commission.

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I am going to explore these at length—but first I want to make an admission against somebody else's interest—there *is* much censorship—even as it is defined here—there is much censorship in broadcasting today. It is as much to be examined, spotlighted and at times deplored as any form of censorship by a government agency. And since it is done by our own governmental licensees every broadcast day, it violates the spirit of the First Amendment and Section 326 of the Act just as surely as if we had done it ourselves.

The censorship I speak of here takes two forms. First is rating censorship—a result of the almost desperate compulsion of some of our licensees to work and to plan and to live by the numbers, always striving to reach the largest possible audience in order to attract and hold the mass advertising dollar. At best, only the majority interest can be served here and the interests of massive minorities are badly served; and the public interest again is trampled.

. . . The other form of censorship I speak of is what Clare Boothe Luce has called "dollar censorship." Here the broadcast licensee simply abdicates his own judgment and turns programming decisions over to an advertiser or his agency.[5]

Here we have the inversion at its fullest. By defining censorship not as force, but as control over material prior to its release, Minow makes the broadcasters guilty of censorship by the very fact that they are broadcasters, and makes the government innocent of censorship by virtue of the fact that it does not see the programs prior to their release.

At this point, it is necessary to briefly answer the argument that since broadcast frequencies exist in a limited quantity, government control over the use of those frequencies is justified. *Everything* exists in a limited quantity, including paper and ink for newspapers and cables for non-broadcast communications. It is this very fact that makes private property necessary. The government's proper role is not to seize control of something because it is finite, but to establish the legal basis for guaranteeing property rights. In the case of television, this could have meant some sort of "homesteading" for frequencies; today, it should mean recognizing the property rights of broadcasters to the frequencies they are using over a given geographic area.

Censorship Exercised in Licensing Procedures

Someone might have asked Mr. Minow: isn't the government's power to take away a station's license a power of censorship? On the contrary, says Minow; the fact that the government has this power makes the *station's* decisions "censorship." The logic is that since they are licensed by the government, they are subject to whatever restrictions (such as the First Amendment) are placed on the government.

Isn't the free market best served

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by letting stations broadcast whatever they want, since they must broadcast what people want in order to make money? Yes, says Minow, and that is why they shouldn't have that freedom. The free market would give the greatest number of television viewers what they wanted, and would not permit "massive minorities" to dictate the content of the shows; therefore, according to Minow, the broadcasters must be regulated. A free market is "dollar censorship."

And this brings us back to the issue of boycotts. We often hear that a person does not have true freedom of speech or freedom of the press if he does not have the means to exercise his freedom—that freedom of the press requires someone to provide him with a press for his own uses. This view of freedom, which confuses freedom with ability and rights with claims upon others, has traditionally been used on behalf of unpublished writers and unfinanced publishers. But the critics of "dollar censorship" are taking it to its logical conclusion and applying it to the sponsors and producers of TV shows.

Minow regards advertisers as the parties guilty of "dollar censorship." By failing to pay for shows that would not give their products sufficient exposure, they are allegedly depriving the shows' producers of their "freedom" to have their shows presented. The opponents of the boycott, though, realize that sponsors cannot afford to take losses indefinitely, and that it's their *customers* who have to be considered guilty of censorship if "freedom" requires being provided with means.

The implications of defining censorship and freedom in this way are dangerously broad. If the boycotters are guilty of censorship when they decline to buy sponsors' products, then the rest of us are guilty of the same crime when we buy products that we have seen advertised, rather than products advertised on shows which we have decided not to see, or when we buy one magazine and not another at a newsstand. In every such case, we are failing to provide someone with the financial support that he may need to continue broadcasting or publishing; we are engaging in "dollar censorship."

The danger in the inverted standard of censorship is that we will be forced, in the name of "freedom," to pay for publications and broadcasts whether we want to or not. In fact, we are already forced to pay for governmental subsidies to public television and to the arts. The logical conclusion to which these subsidies could be carried is complete governmental control of the broadcast and publications media, with subsidies available only to those who meet the government's criteria, and with charges of "censorship" being levelled against anyone who tries to

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spend money on broadcasts and publications of his own choice. The United States is still a long way from this sort of totalitarian "freedom," but this is the actual state of affairs in many countries today. If we want to preserve freedom of speech here, we must not be silent when freedom is attacked in its own name.

—FOOTNOTES—

[1]Ron Powers, "The New 'Holy War' Against Sex and Violence," *TV Guide*, April 18, 1981.

[2]Sylvester Petro, "Do Antitrust Laws Preserve Competition?", *The Freeman*, April 1981.

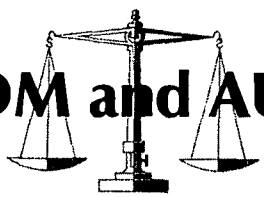
[3]Janet Neiman, "Boycott? 2 Leaders Disagree," *Advertising Age*, April 27, 1981.

[4]Newton Minow, *Equal Time: The Private Broadcaster and the Public Interest* (Atheneum, 1964), p. 82.

[5]*Ibid.*, pp. 74–75.

Haven Bradford Gow

FREEDOM and AUTHORITY



A Delicate Balance

IN his book *Power*, Adolph Berle discussed what he believed are five laws of power: (1) Power inevitably fills any vacuum in human organization, (2) Power is invariably personal, (3) Power is invariably based on a system of ideas or philosophy, (4) Power is exercised through, and depends upon, institutions, (5) Power is invariably confronted with, and acts in the presence of, a field of responsibility.

Power, in other words, is the capability of accomplishing something. It means control over others. It can mean, but does not necessarily imply, the legal ability to do or accomplish something.

Authority, on the other hand, involves the *moral* right (and sometimes, too the *legal* right) to settle

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issues or disputes. It means the right to control, command or determine. Authority is natural: that is, it emanates from the intense demands of man's nature. Human beings require and desire authority, even as they desire and demand friendship, love and family. Any human group, organization or institution demands authority. A family needs parents to lead it and set guidelines. A baseball team requires coaches, a manager, a general manager and an owner. A police or fire department requires a chief who will make and enforce the rules for the department. A church group needs leaders who will help decide and enforce church policies. Everyday experience, then, reveals man's need for authority.

But something tragic happened during the past decade: A total war on authority erupted. What resulted was an inordinate emphasis on "freedom," and the wrong sort of freedom at that. As Russell Kirk and other scholars have observed, the consequence of the total war on authority was freedom without order, freedom without discipline or restraint, freedom without authority. Certainly, though, any tolerable social order demands a delicate balance between freedom and authority, for authority helps to teach man self-control and keeps human beings from committing mayhem against their neighbors.

A harmful breakdown of authority in one area of life almost inevitably leads to the erosion of authority in other areas as well. For example, we witness in our society today a virulent and officious assault on authority in the family and in schools—elementary through university.

Restoring Authority

What steps should we take to achieve the restoration of *reasonable* authority (not blind force or coercion) in our society? One way that authority can and will be restored in society is when those who have (or should have) authority begin to *exercise* it in their appropriate spheres of responsibility. Thus, authority in the family can be restored when parents fight to regain their right to educate their children. Teachers can help to restore authority by exercising their right to discipline unruly and discourteous students, who are infringing upon the right of other students to learn.

The state too can help to restore authority in society by guaranteeing the authority of other institutions—for example, families, schools and churches—by exercising authority in its own proper sphere, and by not usurping the authority of other bodies. It can serve to promote authority in society by guaranteeing that God-given rights are protected, and by enforcing laws justly.

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A Life in Two Centuries

Bertram D. Wolfe's *A Life in Two Centuries* (Stein and Day, 728 pp., $29.95) is a fascinating book by a man of great talent who spent most of his life trying experiments that were bound to fail. Eventually he came around to common sense views, but his ordeals were always prolonged by an innate romanticism that gave continuing scope to his imagination while it kept him from giving up on the ideals that fired his youth in Brooklyn slums and at City College in New York.

Wolfe's biggest mistake was to take a most important part in founding the American Communist Party. The story of how he got into this is one of inadvertences and serendipitous happenings that defy all logic yet are entirely understandable in terms of feeling. The young Wolfe took the atmosphere of the stable years preceding World War I quite seriously. He believed in the Nineteenth Century, which had been one of prolonged peace after sensible men named Metternich and Castlereigh and Talleyrand had thrashed out an enduring treaty at Vienna in 1815. When Woodrow Wilson went back on his campaign promises and took us into the war, Wolfe was outraged. And when a compulsory draft was instituted, giving the state the power to command young men's bodies, it seemed a violation of everything that America, in contrast to the Old World, had symbolized.

Wolfe's pacifism could find no place in the Democratic and Republican parties, but socialism, particularly left-wing socialism, made room for pacifists. So Wolfe joined the Socialist Party with no interest whatsoever in its economic theory. He became a socialist street corner orator with no particular knowledge of Marx. The big thing was to oppose the war.

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The Marxist Years

Contact with Marxism as a literature came slowly. When right-wing socialists began to buy and sell Liberty bonds, Wolfe found himself pushed to the socialist left by another of those serendipitous circumstances that were to govern his life. Came the Russian Revolution, and left-wing socialism, which to Wolfe was pacifism, merged into Communism. Wolfe found himself editing a journal called *Facts: The People's Peace Paper.* It couldn't last, for when the Espionage Act was passed, sending people to jail for daring even so much as to question the good faith of America's allies, Wolfe had to kill his own magazine merely to protect those who had been his contributors.

Wolfe soon found himself mixed up with what Lenin, the new star on the radical horizon, called "splits, splits, splits," glorying in their purgative value. The left wing of the Socialist Party split with the right wing. With John Reed, Wolfe wrote a left-wing manifesto. Then the left wing itself began to split. Going with his feelings, Wolfe found himself working with the founders of the so-called twin parties, the Communist Labor Party and the Communist Party. As splintering continued, communists of all stripes, including those who were mainly pacifists, had to go underground.

Bert Wolfe never liked the factionalism that had engulfed the "movement." But he put up with it while he edited something called the *Communist World.* One day, as he was putting his paper to bed, he got wind of the fact that seventeen of his friends had been arrested. Knowing that he would be the eighteenth if he were to be caught, he simply failed to go home to Brooklyn. He wound up in California with a changed name and a Van Dyke beard. As "Arthur Albright," he became a West Coast labor leader—and Communist. His wife Ella joined him for an "idyllic" period that came to an end when, as a delegate to the underground Communist convention at Bridgeman, Michigan, he was almost trapped by an F.B.I. raid on the assembled Leninists. Escaping by a Ford car in the darkness while his wife stumbled through the woods in her own separate escape, he had to give up the name of Albright. He went to Boston where, by an inadvertence, he ran into a man who was recruiting English teachers for Mexico. What the man really wanted was a ghost writer to help extol the wonders of the Mexican revolution.

Thinking they were hired to teach English to Mexican girls, Wolfe and his wife settled down in Mexico City. Mexican socialism did not seem to be a paradise to Wolfe—there were too many homeless boys, thrown into the streets to become beggars and pickpockets. So he refused to take Carleton Beals' place as ghost wri-

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ter for the school recruiter. On their own, the Wolfes stayed in Mexico, becoming local communists in a socialist state that tended more and more to return to capitalism as retiring presidents departed with funds which they used to float themselves off as influential tycoons.

On to Moscow

Meanwhile, back in the United States, Communism in the East pursued its futile bickering ways. By removing himself to California and then Mexico, Wolfe escaped the dreary factional infighting. He still had his illusions when the Mexicans sent him to Moscow as a delegate. It was the first of Wolfe's trips to the "Holy Land," and he wasn't disillusioned all at once. His final rejection of Communism had to wait until 1929 when, with Jay Lovestone, Ben Gitlow and other American Communists, he had the temerity—and the sublime innocence—to challenge and oppose Joseph Stalin, who retaliated by ordering a minority of subservient hacks to take the American party away from its democratically elected leaders.

Wolfe, Lovestone and Gitlow, among others, found themselves trapped in Moscow when Stalin was completing his theft of the American party. How they managed to get out makes for some spine-tingling reading.

Disillusionment with Stalin didn't turn Bert Wolfe to the right all at once. He became a member of the Lovestone Communist "opposition." But by degrees he was rescued for common sense. He went to Spain, where he sided with John Dos Passos against Ernest Hemingway in condemning the treatment of anarcho-syndicalists, socialists and plain republicans by the Stalinists who had taken command of the anti-Franco armies. Back home, he pursued linked careers as a teacher and writer. A most tenacious researcher, he wrote some great books. Two that stand out particularly are *Three Who Made a Revolution: Lenin, Trotsky, Stalin* and *The Fabulous Life of Diego Rivera*. But the most exciting of all is this autobiographical *A Life in Two Centuries*.

How is it that such a chronicle of mistaken allegiances and foolish political choices can be so compelling? Partly it is a matter of Bertram Wolfe's ability to make you see, hear and feel. Much has been written about the horrors of Stalinism, but Wolfe excels all others in making you feel the malevolence of the man. He is just as compelling in his presentation of the crazy, tender and fundamentally loving Diego Rivera, whose murals, though propagandistic in intention, have the authenticity of great art.

In spite of a lifetime devoted to collectivist causes, Wolfe remained an individual. The truth is that he

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was never really a communist. What he liked about Russia in the early Twenties were its NEP peasant farmers, all individualist to the core. What he liked about the Mexican "revolution" was that it gave wall space to great painters. Eventually, after four decades of belief in Bukharin's version of Marxian economics, Wolfe stumbled on the truths of the Austrian marginal utility school. In the last twist of a breathlessly adventurous life Wolfe saw the light as it was vouchsafed to him by Ludwig von Mises. Could anything be more deliciously ironic?

THE PENNILESS BILLIONAIRES
by Max Shapiro
(Times Books, 3 Park Avenue, New York, N.Y. 10016)
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Reviewed by Lawrence W. Reed

INFLATION—the debasement of money—is almost as old as money itself. What civilization of the past has resisted the temptation to cheapen its money? What German Chancellor Erhard once called a "burning, destructive, unpardonable, mortal sin of modern society" dates back to the first time some profligate monarch seized control of his kingdom's medium of exchange.

Coinage was invented in the ancient province of Lydia (in Asia Minor) around 650 B.C. It represented a substantial improvement over primitive media of exchange and greatly accelerated the economic progress of the ancient world.

It wasn't long, however, before the Lydian kings discovered that they could reduce the precious metal content of their coins, manufacture great quantities of these debauched pieces, and spend the new money themselves before the unsuspecting public caught on. If prices rose, so what; more money could be manufactured. Weakened by inflation, Lydia was conquered by Cyrus the Great of Persia around 550 B.C.

The ancient Greeks, and the Romans after them, practiced the fine art of inflation, too. From Solon's 27 per cent devaluation of the *mina* in 594 B.C. to Diocletian's Edict of A.D. 301, only brief periods of monetary stability interrupted centuries of State-fostered inflation.

The Chinese were the first to develop paper money, crudely designed slips of paper backed—at first—by precious metals. The government gradually removed the backing, inaugurating what we call today "fiat money." The money became worth whatever the emperor said it was worth—at least in theory. The rest of the story is what any good historian might expect—rapid depreciation.

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Four of the most interesting inflations of history are the subjects of a fascinating new book, *The Penniless Billionaires,* by Max Shapiro. For the non-specialist interested in an entertaining and instructive account of man's inflation follies, this book more than makes the grade. It is chock full of facts and quotes which leave the reader in today's inflationary times with a disturbing sense of déjà vu.

The four experiences discussed are those of 5th-century Imperial Rome, 18th-century Revolutionary France, 19th-century Civil War America, and 20th-century Weimar Republic Germany. When each inflation began, officials scoffed at the thought that things might someday get out of control. They argued that, in any event, the inflation was necessary to pay for foreign adventures, to build public projects, to fight poverty, to stimulate the economy, or to keep the government's creditors at bay. Manufacturing money is a great way for politicians to raise revenue without visibly and directly raising taxes.

Imperial Rome

Shapiro's narrative of the Roman experience begins with Augustus, who embarked upon a massive public works program (à la FDR's WPA of the 1930s). To finance the huge expenditures, the volume of money Augustus "issued in the two decades between 27 B.C. and A.D. 6 was more than ten times the amount issued by his predecessors in the twenty years before his reign!" Recurrent periods of inflation during the next several centuries so weakened a once great civilization that 5th-century Rome fell an easy prey to the barbarian invaders.

Revolutionary France

Ignorance of history has doomed many nations to stupidly repeat the most inexcusable of errors. The French should have learned their lesson in 1720 after John Law's paper money scheme fell apart and impoverished the nation. Some did learn, but that didn't stop the ruinous inflation of the *assignats* later in the century.

On December 19, 1789, the French Assembly authorized the creation of the first of the paper *assignats.* The notes were to be "backed" by confiscated Catholic Church properties. Issue after issue poured forth as the Revolution gave way to the Reign of Terror. Prices soared and controls were imposed, to no avail. Blood flowed in the streets amid riots, pillaging, and the monstrous appetite of the guillotine.

When Napoleon came to power in the coup d'état of November 10, 1799, he found the *assignats* worthless, the economy in shambles, and the people demanding a strongman to bring order out of chaos. "While I live," he proclaimed, "I will never

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resort to irredeemable paper." The promise was in vain.

Civil War America

Salmon P. Chase was the man entrusted by the newly-elected president, Abraham Lincoln, to be Secretary of the Treasury in 1861. With war preparations underway, Chase looked for a way to pay the bills. Unwilling to bear the responsibility of proposing new taxes, he inched the administration in the direction of issuing unbacked paper money.

With the budget deficit zooming and banks suspending specie payments at the encouragement of the government, President Lincoln signed the bill creating the "greenbacks" on February 25, 1862.

What followed was a threefold rise of the money supply in the North by the end of the war. A hyperinflation and the complete destruction of the currency was prevented by the war's end and the subsequent restoration of hard money—one of the few inflations in history which stopped short of the abyss.

Weimar Republic Germany

The world saw its first modern-day quadrillionaire with the incredible inflation of Weimar Republic Germany. Starting with the outbreak of war in 1914, the printing press gathered steam until money "slammed out . . . in lunatic fury, prices roared upward in mad, quantum leaps." In November 1923, the wholesale price index stood at almost one trillion four hundred twenty-three billion times its 1913 level, resulting in the silent, cruel, and demoralizing impoverishment of a whole people. The countless personal tragedies engendered by this financial debacle are the sum and substance of the book's title, *The Penniless Billionaires*.

Max Shapiro, a research partner in a securities firm, does more in this book than supply facts, figures and dates. He ties events, centuries apart, together in a coherent thesis. The reader is moved by the ominous parallels which emerge.

One such common thread, he maintains, is the existence during inflations of a class of people who actually promote and profit from the process. These may be certain government officials or private entrepreneurs. They amass fortunes because they understand the phenomenon of inflation and use this knowledge in all their financial operations. This observation brings to mind the words of a 20th-century architect of inflation, John Maynard Keynes:

> Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not

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only confiscate, but they confiscate *arbitrarily;* and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls . . . become "profiteers," who are the object of hatred of . . . those whom the inflationism has impoverished. . . . As the inflation proceeds . . . the process of wealth-getting degenerates into a gamble and a lottery.

Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose. . . . (*The Economic Consequences of the Peace,* 1920)

In the closing chapters of the book, Shapiro traces the course of the present U.S. inflation. The Federal Reserve, he charges, is the chief culprit in the dollar's plight. Corporate executives, labor union leaders, politicians, bankers, and others among the general public who pressure the Fed to manufacture money are accomplices in the crime. Time, he says, is running out. Failure to put a stop to printing press madness soon will toss this country's currency on the same scrapheap with the denarius, the assignat, and the mark. "Nothing can replace the dollar," some wit remarked, "and it almost has!"

COMING ATTRACTIONS

The September 1981 issue of *The Freeman* will be in special tribute to Ludwig von Mises on the centenary of his birth, September 29, 1881.

The issue will consist primarily of excerpts from *Human Action,* selected and arranged topically by George Koether, a former student of Professor Mises.

Anyone who may want substantial quantities of that special issue at the bulk rate of 25 cents a copy is urged to place an advance order.

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